

COERCIVE COMPLEMENTARITY:
INTEGRATING THE MILITARY AND ECONOMIC INSTRUMENTS OF POWER

BY
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APPROVAL

The undersigned certify that this thesis meets masters-level standards of research, argumentation, and expression.

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Abstract

This study explores the complementary nature of the economic and military instruments of power in coercive diplomacy. The study seeks to determine if the combined application of military and economic power can amplify coercive effects, and if so, how they might be integrated. Targeted primarily at practitioners of national security, the study combines a primer on the capabilities of the economic instrument of power, a comparison of the economic and military literature on coercion, and a study of the strategies used against Iraq and Serbia in the 1990s.

The study argues that the economic and military can complement one another, given the right context. Understanding when the context is “right” requires knowledge of the regional power system, the economic links that connect regional players, and the United States’ willingness to use military force. Not all scenarios lend themselves to an integrated military and economic coercive strategy, but when the conditions are favorable, the US experience in the 1990s suggests there are at least five concrete approaches that integrate military and economic tools to improve overall coercive effects. Understanding the applicability of these approaches requires gaining a multidimensional understanding of the nature of economic power and coercion theory that the study provides.

The study begins by offering the reader a primer on the nature and dimensions of the economic instrument of power. This primer details why globalization is changing the nature of economic and military power and increasing the importance of multilateral coalitions. It also explains how the US economic instrument is controlled and why the United States derives its influence primarily through trade.

Next, the study explores the principles of coercion common to the military and economic literature and then assesses the differences between the instruments themselves. It finds the most important commonality in the economic and military literature on coercion is their emphasis on addressing feasibility, collateral costs, and

counter-coercion strategies since these issues impact policy outcomes most directly. The differences between the instruments help to understand how they complement one another. Not surprisingly, the most significant difference is how the instruments impose costs on the target, sender, and third parties. Yet these differences are important, since they help to explain how economic and military power bring multidimensional power to bear on a target nation.

Using this background, the study concludes by offering five strategies to integrate military and economic power. These strategies use economic and military power to either amplify a third party threat, threaten regime control, increase direct costs, exacerbate a critical shortage, or create personal loss to regime supporters. While these strategies are not universally applicable, they are intended to provide policy makers with a more integrated approach to strategy development.

Contents

| | <i>Page</i> |
|--|-------------|
| DISCLAIMER | ii |
| ABOUT THE AUTHOR | iv |
| ACKNOWLEDGEMENTS | v |
| ABSTRACT | vi |
| ILLUSTRATIONS | x |
| CHAPTER 1 | 1 |
| INTRODUCTION | 1 |
| Purpose | 2 |
| Significance | 2 |
| Methodology | 3 |
| Summary | 4 |
| THE NATURE AND DIMENSIONS OF US ECONOMIC POWER..... | 7 |
| What is Economic Power?..... | 7 |
| The Role of International Trade as America's Source of Economic Power | 8 |
| Background: US Leadership and the Growth of International Trade..... | 9 |
| The Impact of Multilateral Trade Liberalization on Economic Power | 11 |
| What Is the Nature of Economic Power In An Increasingly Integrated World?..... | 12 |
| International Agreements Limit US Freedom Of Action | 12 |
| Unilateral Action Is Difficult Within International Bodies | 12 |
| Complex Interdependence Increasingly Requires Multilateral Action | 13 |
| How Decision Makers Control The US Economic Instrument of Power..... | 13 |
| Control Is Limited | 13 |
| Control Is Divided | 14 |
| Implications for Strategists | 16 |
| Economic Tools Available To Policymakers and Strategists..... | 16 |
| Trade Tools | 17 |
| Financial Tools | 20 |
| Summary: Assessing the Nature and Dimensions of Economic Power | 24 |
| COMPARING THE MILITARY AND ECONOMIC INSTRUMENTS | 32 |
| Principles of Military and Economic Coercion | 32 |

| | |
|--|----|
| A Definition of Coercion | 32 |
| Comparing Coercive Strategies in the Economic and Military Literature | 33 |
| Comparing Economic and Military Power as Coercive Tools | 38 |
| Similarities Between Coercive Uses Of Economic and Military Power | 38 |
| Summary..... | 45 |
| ASSESSING ECONOMIC AND MILITARY COMPLEMENTARITY | 51 |
| Exploring the Preconditions Necessary For Complementarity To Enhance Feasibility..... | 52 |
| Strategies To Achieve Complementarity And Enhance Feasibility | 53 |
| Summary: Using Military and Economic Complementarity To Enhance Feasibility..... | 57 |
| CONCLUSION..... | 60 |
| A Review of The Study's Major Findings | 60 |
| Recommendations and Areas for Future Study | 64 |
| Final Thoughts | 64 |
| SELECTED LAWS THAT POTENTIALLY RESTRICT FOREIGN COMMERCE, BY TYPE OF ACTIVITY | 66 |
| US POLICY TOOLS TO CONTROL EXPORTS | 69 |
| BIBLIOGRAPHY | 71 |

Illustrations

| | <i>Page</i> |
|--|-------------|
| Figure 1 Summary of the Economic Tools Available to Policymakers and Strategists..... | 18 |
| Figure 2 Nations Targeted By Active Trading Sanctions (2003)..... | 19 |
| Figure 3 Comparison of Trade and Financial Tools..... | 22 |
| Figure 4 Leading Recipients of US Foreign Aid..... | 23 |
| Figure 5 Comparison of Direct Investment, 2001..... | 25 |
| Figure 6 Strategies To Enhance Coercive Feasibility Using Military and Economic Complementarity..... | 53 |
| | |

CHAPTER 1

INTRODUCTION

In 1997, Major General David Deptula published a military treatise that altered the Air Force's and, to a lesser extent, joint military thinking about the employment of military power. Deptula's work, titled *Effects-Based Operations: Change in the Nature of Warfare*, emphasized the simultaneous attack of critical vulnerabilities across the breadth and depth of the target nation's "system" in order to generate "effects" that impacted the target nation's political leadership and military capability.¹ While Deptula's paper focused on the employment of military force at the operational level of war, his concept of "effects" extended beyond the employment of kinetic weapons.

At the strategic level, Deptula advocated the integration of all the components of US national power—political, military, and economic—to "conduct [a] national security strategy in depth."² Although provocative and compelling, Deptula's idea that military strategists should broaden their thinking beyond the use of force in designing strategy was not new. In 1961, President Kennedy implored the members of his Joint Chiefs of Staff to consider how military actions integrated into the larger context of US foreign policy, since "the most difficult problem in Government is to combine all assets in a unified, effective pattern."³

The end of the Cold War combined with the spread of terrorism to North America reinforces the importance of an integrated national strategy. Even before the 9.11 terrorist attacks on the United States, John Deutch, Arnold Kanter, and Brent Scowcroft observed that the distinctions between peace and war; foreign and domestic matters; and "domestic" law enforcement and national security were fading. Most importantly, they noted that effective policy requires the integration of economic and military measures.⁴

Purpose

Deptula, Deutch, Kanter, and Scowcroft's idea that the actions of the military and economic instruments of national power should be coordinated in the formulation of strategy provides the focus for this study.⁵ Specifically, the study seeks to determine if the military and economic instruments of power can complement one another in coercive diplomacy, and if so, how they might be integrated.

Significance

The idea that the economic and military instruments of national power should be coordinated may seem obvious to the strategist. After all, the Department of Defense's capstone doctrinal publication, *Joint Publication 1: Joint Warfare of the Armed Force of the United States*, posits, "Military operations typically represent only one dimension of US action and require integration with the other instruments of national power."⁶ However, this point requires additional emphasis for two reasons.

First, military education provides military officers with little information about the economic instrument as a tool of coercion. For example, the Air Force's premier school for strategists, the School of Advanced Air and Space Studies, dedicates less than 100 pages of reading (out of an estimated 13,000 pages in the curriculum) to economic coercion. However, military planners working at the strategic and operational levels are increasingly encountering coercive effects generated by the economic instrument. For example, in the 1990s, economic sanctions were put in place ahead of military force during coercive campaigns in Iraq, Serbia, and Haiti.⁷ For the strategist, such a scenario presents several questions: What is the likelihood sanctions will "work"? What effects will the sanctions create within the target nation? Can our follow-on military strategy capitalize on or enhance these effects? Therefore, having a basic understanding of the capabilities of the economic instrument of power is essential.

Second, the academic literature rarely discusses the interaction of economic and military effects in coercion. Much of the literature addressing military and economic coercion is divided into separate academic stovepipes and tends to focus on whether a single instrument of power "worked" alone to reach a policy objective, rather than focusing on whether it "helped or hindered coercion."⁸ As a result, there is

disappointingly little in the way of cross-cultural thinking between military writers and economists on the combined use of the two instruments in a coercive strategy.⁹

Part of the problem lies in the way in which research on economic coercion is conducted. For example, a common definition of economic sanctions found in a number of studies is "the actual or threatened withdrawal of economic resources to effect a policy change by the target [nation]."¹⁰ While this definition helps to focus academic research, it also tends to promote "all or nothing" thinking on the utility of economic sanctions in strategy. Perhaps the most extreme example of this thinking is represented by Robert Pape's article entitled, "Why Economic Sanctions Do Not Work."¹¹

In contrast, other scholars, like Columbia's David Baldwin, argue quite decisively that the question of whether economic sanctions "work" is separate from the question of whether they should be used, since policy makers must weigh the effectiveness and cost of sanctions against other possible policy choices and in the light of overall strategic goals.¹² He further recognizes that the economic instrument can be used to produce both economic and non-economic outcomes by arguing, "economic sanctions may be effective not because of their economic impact, which may be nil, but rather because of the signal they send about the intention of the state imposing sanctions."¹³ This point of view is important, since it undercuts many of the arguments against using economic measures (like sanctions) and offers the strategist a useful point of departure to begin thinking about how economic and military tools complement one another.

Methodology

With these deficiencies in mind, this study explores military and economic complementarity in coercive diplomacy at the grand strategic, strategic, and operational levels. It is targeted primarily at an audience that has a fairly sophisticated understanding of military power, but knows less about the economic instrument. Chapter 2 explains what economic power is, how the economic instrument is controlled, and what coercive economic tools are available to strategists. Chapter 3 compares the military and economic instruments as tools of coercion. It discusses some principles of coercion common to both, and then conducts a comparative study of the military and economic instruments as coercive tools. Building on this discussion, chapter 4 explores areas of

military and economic complementarity that enhance the feasibility of a coercive strategy. It draws on the US strategies used against Serbia and Iraq in the 1990s to conduct this analysis. Finally, chapter 5 concludes by reviewing the findings of the study and suggesting areas for further research.

Summary

The economic and military instruments share many of the same traits as tools of coercion. Yet paradoxically, their differences—summarized by the type of effects they bring to bear, the permanence of these effects, and the speed of their onset—make them seemingly incompatible. Not only that, but many national security practitioners compartmentalize the two, applying them independently. This impression is reinforced by the academic literature which, as previously mentioned, focuses narrowly on whether one instrument “works” alone to produce a favorable coercive outcome.

This study takes a contrary view. It suggests that the economic and military instruments are complementary as tools of coercion given the right context. Understanding when the context is “right” requires knowledge of the regional power system, the economic links that connect regional players, and the United States’ willingness to intervene using military force. Therefore, not all scenarios lend themselves to an integrated military and economic coercive strategy. But when the conditions are favorable, the US experience of the 1990s suggests there are at least five concrete approaches the strategist can call on to integrate military and economic effects. Understanding the applicability of these approaches requires gaining a multidimensional understanding of the nature of economic power and coercion theory that the following chapters provide.

Notes

¹ David Deptula, *Effects Based Operations: Change in the Nature of Warfare* (Washington, D.C.: Air Education Foundation, 1997), 1-28 passim. An effect is defined as “the physical, functional or psychological outcome, event, or consequence that results from specific military and non military action.” United States Joint Forces Command, *A Concept Framework for Effects-based Operations (Draft)*, 01 August 2001, URL:<<https://je.home.usjfc.com.mil>>, accessed 15 October 2001, 4.

² Ibid., 25.

³ U.S. President, National Security Action Memorandum # 55, “Relations of the Joint Chiefs of Staff to the President in Cold War Operations,” 28 June 1961.

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⁴ John Deutch, Arnold Kanter, and Brent Scowcroft, "Strengthening the National Security Interagency Process," in *Keeping the Edge: Managing Defense for the Future*, eds. Ashton Carter and John White, (Cambridge, Mass.: Preventive Defense Project, 2000), 268-69.

⁵ One of challenges of this study is to sort through the lexicon used in academic and military literature to describe the role of military and economic "policy/power/levers/tools/measures/instruments" in political discourse. David Baldwin uses the term "statecraft" to describe "the instruments used by policy makers in their attempts to exercise power, i.e., to get others to do what they would not otherwise do. Two traditional foci of political science research—policy and power—are thus linked by this undertaking." Therefore, Baldwin uses the terms "economic statecraft" and "military statecraft" to describe the discrete policy actions that utilize specialized techniques to influence other state and non-state actors. See David Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton Press, 1985), 9 and 8-69 passim. Military literature tends to refer to the Joint Publication 1 terminology that describes the "diplomatic, informational, military and economic instruments of national power." See Joint Publication (JP) 1, *Joint Warfare of the Armed Force of the United States*, 14 November 2000, I-5-I-8. Baldwin's argument with this "bases of power" approach is that it sets expectations for outcomes. However, this study uses the JP-1 term "instruments of power," since it provides a common reference used by the US military. Although it uses "power-based" terminology, hopefully the study will not lose the essence of Baldwin's strategic insight.

⁶ JP 1, ix.

⁷ These cases followed the widely accepted dictum that military force is a "last resort." This idea is based in principles of morality and political economy. In terms of morality, the *jus ad bellum* "just war" criteria maintain that since war creates human suffering, military force must be held in reserve as a "last resort." On the other hand, the "Weinberger Doctrine" famously laid out six tests that should be met before deploying US combat forces. These tests emphasize that force should only be used when vital national interests are at stake, and then, only as a last resort. For a discussion of *in bello* principles, see Michael Waltzer, *Just and Unjust Wars: A Moral Argument With Historical Illustrations* (New York: Basic Books, 1977), 51-108 passim. For the details of the Weinberger doctrine, see Casper W. Weinberger, "The Uses of Military Power," speech, National Press Club, 28 November 1984.

⁸ Daniel L. Byman, Matthew C. Waxman, and Eric Larson, *Air Power as a Coercive Instrument* (Santa Monica, Calif.: RAND, 1999), 89. Similarly, RAND's Karl Mueller notes, "It is better by far to realize that coercive success is rarely an all-or-nothing affair, and since coercion results will frequently be ambiguous the analyst should consider what was and was not achieved through coercion without worrying too much about how to label the outcome." See Karl Mueller, "Coercion and Airpower: A Primer for the Military Strategist" (paper presented at the Royal Netherlands Airpower Colloquium 2000, Netherlands Defense College, Rijswijk, Netherlands, 6 June 2000), 6.

⁹ One example of an attempt to begin such a dialogue is retired Marine Corps Colonel John C. Scharfen's 1995 work, *The Dismal Battlefield: Mobilizing for Economic*

Notes

Conflict (Annapolis, Md.: Naval Institute Press, 1995). Unfortunately, Scharfen's tone is too militaristic to be taken seriously in academic or policy circles.

¹⁰ Steve Chan and A. Cooper Drury, *Sanctions as Economic Statecraft: Theory and Practice* (New York: St. Martin's Press, 2000), 1-3.

¹¹ Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security* 22, No. 2 (Fall 1997): 90-110.

¹² David Baldwin, "The Sanctions Debate and the Logic of Choice," *International Security* 24, No. 3 (Winter 1999/2000): 81.

¹³ David Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton Press, 1985), 24

CHAPTER 2

THE NATURE AND DIMENSIONS OF US ECONOMIC POWER

The goal of this study is to identify areas where the military and economic instruments of national power can be used cooperatively in coercive diplomacy. For those unfamiliar with the economic instrument, however, four questions are fundamental. First, what is economic power? Second, what is the nature of economic power in an increasingly integrated world? Third, how is the US economic instrument of power controlled? And finally, what specific tools and measures can US policymakers use to exercise economic power? Accordingly, this chapter provides readers with a primer on the nature and dimensions of US economic power by answering these important questions.

What is Economic Power?

Ask this question to a room of economists and historians and one is likely to receive many different answers. Economists may argue economic power is the relative ability of an economy to produce goods and services as measured by the Gross National Product (GNP). Certainly, relative GNP is an important dimension of economic power since it is a measure of economic asymmetry. As economists Gary Clyde Hufbauer, Jeffery J. Schott and Kimberly Ann Elliot's 1990 historical survey of economic sanctions noted, "In most cases [of economic sanctions], the sender's GNP is over 10 times greater than the target's GNP, and in over half the ratio is greater than 50." Meeting this size asymmetry, however, was neither a prerequisite nor a guarantor of sanctions success. For example, Gary Hufbauer, Jeffery Schott, and Kimberly Ann Elliot found that while many

sanctions foundered when the GNP ratio dipped below 10, a few were successful. In addition, control of a strategic commodity, such as oil or metals, increased the target nation's counter-leverage, despite a lop-sided ratio of sender-to-target GNP.¹

Historians may argue another benchmark of economic power is the relative ability of a nation to produce materiel in time of war. This measure gauges a nation's relative technical prowess, industrial capacity, and access to raw materials. This argument is manifested in historian Paul Kennedy's thesis that there is a long-term correlation between a nation's revenue raising capacity on the one hand, and its military ability to protect its wealth on the other.² Some economists, such as Gautam Sen, support this idea by arguing, "the balance of power in the international political system and the relative power of national actors is therefore primarily predicated on the relative levels of industrial and technological advancement (other things being equal)." The basis of Sen's argument is that these two characteristics are prerequisites to developing a strong military capability.³ Connecting these two approaches to power measurement is the idea that economic potential or mass must be converted into influence. Harvard's Joseph Nye, Jr. notes that political leaders often rely on resource measures (e.g., GNP, population, military size) to define power. The problem with this method, he argues, is that it fails to account for how potential power, as measured by resources, is converted to realized power, as measured by the changed behavior of others.⁴ Nye maintains that some countries are better at power conversion than others. Accordingly, power depends upon "a country's skill at power conversion as well as its possession of resources."⁵

So how does the United States convert its potential economic power into realized power? If one defines power as the ability of one state to influence another, then economist David Baldwin argues there is no more valuable and cost-effective method of influence than to use the mass and capacity of the US economy to promote private international trade and facilitate international economic exchange—certainly a more optimistic, yet no less coercive view.⁶

The Role of International Trade as America's Source of Economic Power

Measuring the economic power of the United States using international trade, currency stabilization, and capital flows rather than its gigantic domestic economy may

seem far-fetched. After all, the United States enjoys the largest economy and highest standard of living in the world, and foreign trade only accounts for about one-third of the economy's total size.⁷ However, the mass of the US economy is not akin to a “fleet in being” that gains its power simply by virtue of its existence.⁸

Instead, the power of the US economy—its ability to influence—lies in providing or denying access to others, whether through markets, currency exchange, foreign aid, or capital. In exchange for this access, the United States gains concessions from other nations, whether they be in the form of reciprocal access to foreign markets and capital, or a change in foreign policy.⁹ Since World War II, the United States has been quite successful in generating influence using this technique. To understand why, it is useful to understand the historical issues that led the United States to promote a consistent 50-year policy of trade liberalization.

Background: US Leadership and the Growth of International Trade

The origins of the present day international economic structure can be traced to the dismal lessons of the Treaty of Versailles and the Great Depression. The Treaty of Versailles ended World War I by placing harsh terms on the Axis powers, particularly Germany. The result of these “beggar-thy-neighbor” policies was economic disintegration and political instability that spread across Europe.¹⁰ As this instability grew, currency exchange rates collapsed and “protective” trade restrictions were imposed. By the late 1920s, international depression began to set in—first in the United States and then in Europe. In an effort to preserve production and employment, the US Congress enacted the Tariff Act of 1930—commonly known as the Smoot-Hawley Act—that raised tariffs on imported goods by 60%. As other nations retaliated with similar tariffs, international trade virtually stopped. Some argue this further deepened the US depression.¹¹

World War II interrupted early US efforts to encourage a more cooperative international trading environment.¹² Although the war dominated the US political agenda from 1941 to 1945, post-war economic and security planning was well underway as early as 1942 within the Roosevelt Administration, and the President began calling for “victory in the peace” in speeches by early 1943.¹³

Roosevelt and his advisors at the Treasury and State Departments outlined four core elements of US postwar strategy aimed at incorporating the lessons of Versailles and the Great Depression: 1) the United States should reject a return to isolationism and remain engaged in the world scene; 2) she should act to prevent political instability in Europe and Asia and prevent their domination by a single power; 3) she should support the establishment of an international collective security organization instead of the “spheres-of-influence” approach to security supported by Great Britain; and 4) she should support a system of multilateral trade based on stable currency exchange rates, moderate trade barriers, and an abundant international flow of investment capital.¹⁴ These policies resulted in two international conferences in 1944: the Dumbarton Oaks conference, which established the outlines of the United Nations, and the Bretton Woods conference, which laid the foundation for the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO).¹⁵

The focus of Bretton Woods—increasing trade while stabilizing and developing the economies of trading partners via multilateral arrangements—became a major organizing principle of US foreign policy during the Cold War; a policy David Baldwin called “one of the most successful influence attempts using economic policy instruments ever undertaken.”¹⁶ To promote stabilization of currencies and international development, the strategy established two multinational lending banks. The first of these was the International Monetary Fund (IMF), which:

was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payment adjustments.¹⁷

Meanwhile, the World Bank provided loans to developing nations in order to promote economic development.¹⁸

To promote free trade, the strategy’s emphasis centered on the principle of multilateral “reciprocity.” Simply put, any nation that agreed to reduce import barriers on certain classes of goods enjoyed a simultaneous, multilateral, and reciprocal reduction of trade barriers from others who agreed. The original framework proposed at Bretton Woods to implement this strategy, the International Trade Organization, was a failure. However, its stopgap replacement, General Agreement on Tariffs and Trade (GATT),

was a success and continues to form the basis of today's liberal, multilateral-trading regime.

The Impact of Multilateral Trade Liberalization on Economic Power

The notion of stabilized currencies and multilateral trade that emerged from Bretton Woods has been extremely successful. Since 1947, merchandise exports grew internationally by six percent annually, and total world trade in 1997 was 14 times greater than in 1950.¹⁹ Today, there are over 145 signatories to the GATT, and those nations account for over 90 percent of the world's trade.²⁰ Meanwhile, the IMF has over 185 voting members, and World Bank membership numbers over 100.

These post-World War II international economic regimes have both enhanced and limited the efficacy of economic coercion as will be detailed later in this chapter. But they have also injected an unprecedented level of complexity into the making of foreign policy. This requires not only that the strategist understand complex issues in multiple levers of national power, but that they understand how to integrate them as well.

Robert Keohane and Joseph Nye recognized the changing nature of economic power (and military power) stimulated by these economic frameworks by articulating their theory of "complex interdependence" in 1977. Essentially a critique of classic realism, Keohane and Nye postulated that various complex transnational connections or interdependencies are developing between states at an increasing rate, and that these relationships have achieved policy relevance. These interdependencies have three characteristics. First, multiple channels connect societies at different levels. These levels include "interstate relations," which describes traditional government-to-government relations; "trans-governmental relations," which describes connections via non-governmental elites; and "trans-national relations," which describes connections through multinational institutions or corporations.²¹ Second, interstate relations cover an increasing number of issues—blurring the distinction between domestic and foreign policy—and these issues lack a consistent priority or hierarchy. The result of this development is that military security no longer dominates relationships (as realists argue); layered and overlapping responsibilities of governmental departments may produce incoherent policy outcomes; and different issues generate different coalitions

within and across governments.²² Third, when complex interdependence exists between governments, the importance of the military instrument of power in regional or bilateral relationships diminishes. As examples, Keohane and Nye cite the relationship between the United States and the western European democracies.²³

What Is the Nature of Economic Power In An Increasingly Integrated World?

Keohane and Nye's arguments point out the key tension policymakers and strategists must deal with when choosing to exercise US economic power in a coercive manner—how to balance the need to preserve US freedom of economic action with the need to attract and commit others into an essentially cooperative convention of rules and reciprocal agreements. Balancing this tension tends to restrain US economic power in three ways.

International Agreements Limit US Freedom Of Action

First, the United States' freedom of action is limited to a significant degree by international regimes such as the GATT or North American Free Trade Agreement (NAFTA) whose legal procedures and multilateral scope provide protection to smaller nations from “economic bullying” by larger nations.²⁴ For example, one of the key benefits given to nations admitted to the WTO is unconditional Permanent Normal Trading Relations (PNTR), formerly (and famously) known as Most Favored Nation Status (MFN). By granting permanent PNTR status, the US loses the ability to use trade as a coercive weapon against that nation unless it wants to incur significant costs.

Unilateral Action Is Difficult Within International Bodies

Second, the multinational nature of international financial institutions, such as the IMF or World Bank, tends to check unilateral US action. The level of US influence over international financial institutions (IFIs) varies. For example, the US exercises influence within the IMF through its US directors. Since the IMF executive board makes many decisions by consensus, simply voicing US opposition is often enough to stop a US-

opposed loan from going forward. However, this is not always the case. Between 1990 and 1997, the IMF approved loans to China over US objection 201 times.²⁵

Complex Interdependence Increasingly Requires Multilateral Action

Finally, the realities of complex interdependence increasingly require the US to gather multinational support when exercising its economic power. The increasing role of transnational institutions like the WTO drives this trend. The phenomenon of “globalization”—the growth of worldwide networks of interdependence—is another.²⁶ In this environment, unilateral actions tend not to be effective since a tightly integrated world economy makes substitution easy.²⁷ Moreover, unilateral action sets an example others might follow for better or worse. While some unilateral actions are necessary to set a positive example, Keohane and Nye argue, “the initiatives taken by the leading state may not always set a good example from the point of view of creating or maintaining a regime from which all states gain.”²⁸

To summarize the discussion to this point, US economic power is primarily derived from, although limited by, increasing trade ties with other nations. Following World War II, the United States acted to establish international bodies to facilitate increased international trade and finance. Over the last 50 years, the United States’ emphasis on multilateral trade liberalization has given rise to a global system of complex interdependence that emphasizes multilateral action. With this background in mind, the next section explains how the economic instrument is controlled.

How Decision Makers Control The US Economic Instrument of Power

Like the global environment in which it operates, the character of the economic instrument is complex. Two features highlight this complexity—governmental control is limited, and it is also divided.

Control Is Limited

Unlike the diplomatic or military instrument of power, control of the economic instrument is not fully vested within the federal government. For example, private finance is largely immune from government control except in special circumstances such

as a declared national emergency.²⁹ Moreover, market forces drive capital flows, trade, and investment. While the federal government can adopt policies to encourage certain market behaviors through mechanisms such as tax law, ultimately the market decides. As Henry Owen, a senior advisor at Solomon Smith Barney who has long experience in government, stated in a 1999 roundtable on economic policy and the National Security Council, "We shouldn't continue to think that we're in a period of the past when the government was the prime actor. It no longer is. And as long as you have a reasonably sensible fiscal policy and a reasonably sensible trade policy, it's the private sector that matters."³⁰

Control Is Divided

Control of the federal government's limited power over the economic instrument is divided between the legislative and executive branches. Article I, Section 8 of the US Constitution gives Congress the power to "regulate commerce with foreign nations." Further, while Article II, Section 2 gives the President the authority to "make treaties," this authority is "by and with the Advice and Consent of the Senate...provided two thirds of the Senators present concur"—a provision that directly impacts trade agreements. Similarly, while Article II grants the President primacy over matters of foreign affairs, Article I gives Congress the power of the purse; further splitting control between the executive and the legislative branches.

This split is not entirely competitive, however. Congress can empower Presidential control of the economic instrument through legislation. For example, to improve the President's credibility in trade negotiations, Congress delegates its authority to regulate commerce through so-called "Fast-Track" trade-promotion authority. This legislation authorizes the President to negotiate a specific agreement for a limited period of time. The provisions of the legislation outline the level of congressional oversight required and provide for an expedited legislative process that prohibits amendments—the House and Senate both can cast only up or down votes.³¹

Similarly, Congress authorizes (or directs) the President to restrict the flow of goods, services, and capital using economic sanctions via legislation (for examples, see Appendix 1).³² However, not all sanctions are created equal. Legislation may be

country-specific or general. It may direct the President to take specific action or allow his discretion in dealing with a target nation. It may even target third parties that have dealings with a target nation.³³ Standing sections of US law give the President broad authority to impose sanctions. For example, with the declaration of a “national emergency” pursuant to the National Emergencies Act, the President can impose far-reaching and comprehensive US sanctions against a foreign nation as allowed by the International Emergency Economic Powers Act.³⁴ This provision was used following the 9.11 attacks to impose economic sanctions on the Taliban.³⁵ In addition, the President gains authority through a number of other legal provisions—more than 238, according to a 1998 Congressional Research Report—to impose economic restrictions in a number of circumstances ranging from the failure of foreign diplomats to pay parking tickets to the detonation of a nuclear weapon.³⁶ The executive branch has wide latitude in determining how sanctions are imposed. Most “mandatory” or “automatic” sanctions imposed by Congress provide the executive branch with an “escape clause” that allows the President to waive part or all of the restrictions.³⁷ For example, although 97 trade-restricting provisions were in place against 30 countries in 1998, as of 2003, the United States was actively enforcing sanctions against only 11 of these nations.³⁸

Finally, the responsibility for day-to-day management of economic sanctions policy and enforcement is further divided among several departments and agencies within the executive branch. Traditionally, policy coordination between these departments is orchestrated using Presidential-level “councils” divided roughly along lines of national-security, economics, and domestic policy.³⁹ However, globalization has blurred the distinction between domestic and foreign policy, if not erased it altogether.⁴⁰ The implications of this trend, discussed by a number of national-security and economic experts at a 1999 Brookings Institution roundtable is, ironically, that the more the economy becomes globalized, the more influence domestic agencies have on the economic instrument. This trend undercuts the traditional roles of the Department of State or the National Security Council (NSC) and increases the influence of agencies such as the Department of the Treasury.⁴¹

Implications for Strategists

What are the implications of these characteristics of the economic instrument for strategists? Joint Publication 1 recognizes that coordination of the military and economic instrument of power is an NSC level responsibility. However, recognizing the decentralized nature of the economic instrument, it also recommends that the armed forces “coordinate with [US Government] agencies responsible for employing the economic instrument to facilitate unity of action.”⁴² Unfortunately, joint doctrine does not provide a list of the “agencies responsible for employing the economic instrument” below the NSC-level, nor does it provide a list of economic tools available to strategists. To help fill this void, this chapter's last section serves as a reference that outlines economic tools and the agencies involved in their control.

Economic Tools Available To Policymakers and Strategists

The economic tools available to policy makers can be divided into three broad categories: trade tools, financial tools, and ancillary tools. Figure 1 provides a quick sketch of the tools resident in each of these categories as well as a summary of their capabilities and limitations. To understand how these tools are employed, each is discussed in greater detail below. This discussion begins with the most visible set of economic tools employed by the United States: those dealing with trade.

Trade Tools

Trade tools offer a medium level of Presidential control with the potential for a large coercive impact on a target nation. The government's primary trade tools reside in its ability to regulate imports and exports.⁴³ This is a significant capability, given the \$973 billion in US exports and \$1.408 trillion in imports in 2002.⁴⁴ Generally, Congress has afforded the President with some degree of control over all exports.⁴⁵ The President's control over imports is not as comprehensive, but is still substantial.⁴⁶ In addition to

Figure 1. Summary of the Economic Tools Available to Policymakers and Strategists

| Trade Tools | Finance Tools | Ancillary Tools |
|---|---|--|
| Limits on Imports Limits on Exports | Foreign Aid Trade Promotion Assistance Lending by IFIs Private Sector Lending Blocking and Forfeiture | Docking/Landing Rights Immigration Policy Travel Restrictions Government Purchases |
| Capabilities: <ul style="list-style-type: none"> - Potential for large impact on the target nation - Medium level of Presidential control Limitations: <ul style="list-style-type: none"> - Potentially large domestic impact drawing Congressional interest - Use limited against World Trade Organization members - May impact long term influence | Capabilities: <ul style="list-style-type: none"> - Foreign aid provides most Presidential control, but offers less impact than trade tools - Trade promotion policy is a powerful tool in the developing world - Can target sanctions for assets within US territory. Limitations: <ul style="list-style-type: none"> - International financial institutions require multilateral support - Limited control over private sector financing except in emergencies; government policy effective as a long-term tool | Capabilities: <ul style="list-style-type: none"> - Useful as a signaling tools Limitations: <ul style="list-style-type: none"> - Least amount of impact on the target nation |

employing trade as a means to directly influence a target nation, Congress and the President also use trade heavily as a signaling tool to third parties. One example is so-called "secondary sanctions" that Congress enacts to compel other nations to join sanctions already put into place by the United States.⁴⁷ These measures usually include an "escape clause" that allows the President to prevent these sanctions from taking place.⁴⁸ While these measures are controversial, the coercive logic that casts the Congress as "bad cop" and the President as "good cop" is common in many provisions of trade restricting legislation.

Imports and exports can be controlled in two major ways: 1) through trade sanctions or 2) using market-oriented mechanisms. The executive branch implements trade sanctions on imports and exports directly via a number of control lists. These lists allow policy makers to limit imports and exports by the type of good, by country, by firm, or even by individual. For example, both the Departments of Commerce and State maintain control lists that require specific licensing for the export of high technology or military items.⁴⁹ Other tools, such as the Department of the Treasury's Specially Designated and Block Persons List, prohibit trade with designated firms or individuals in accordance with US sanctions law. As of March 2003, this 81-page list included almost 4,000 prohibited individuals, companies, and ships.⁵⁰ Appendix 2 lists the agencies with export-oversight responsibility and the tools used to implement export-control policy. Figure 2 lists nations included on control lists currently targeted by active trading sanctions.

| Figure 2. Nations Targeted By Active Trading Sanctions (2003) |
|--|
| Balkans Burma Cuba Iran Liberia North Korea Sierra Leone Sudan Syria UNITA (Angola) Serbia and Montenegro Source: US Department of the Treasury, Office of Foreign Asset Control |

While trade sanctions can be applied to either exports or imports, market-oriented controls apply to imports exclusively. These controls include import quotas, which limit the quantity of goods imported to the United States, and tariffs, which impose an additional "tax" on imported goods thereby increasing their domestic price.⁵¹ Quotas can be used as a signal, a stick, or a carrot. For example, President Reagan lowered Nicaraguan sugar import quotas, while simultaneously raising the import quota for other Central American countries to further US foreign policy goals in Central America in the 1980s. Quotas have also been used to signal US positions on human rights, weapons proliferation, endangered species, and support for terrorism.⁵²

Tariff rates, on the other hand, are perhaps the most well known market-oriented control. Countries who enjoy the lowest tariff rates are those who are granted Normal Trading Relations (formerly known as Most Favored Nation status) or who are part of programs designed to promote trade in developing countries such as the Generalized System of Preferences or the Caribbean Basin Initiative. Granting lower tariff rates serves a dual purpose. First, as discussed earlier in the chapter, by expanding trade the

US hopes to develop stable trading partners, enhancing US security and prosperity over the long term. Second, in the short run, the United States gains leverage over nations who wish to improve their trade ties with the United States.

Most nations of the world enjoy Normal Trading Relations with the United States. To gain this status, a candidate nation must sign, and Congress must approve, a bilateral trade agreement. The President must then certify the candidate nation meets certain freedom of emigration requirements required by the "Jackson-Vanik" amendment to the Trade Act of 1974—another example of Congress acting as "bad cop" and the President acting as "good cop" to gain coercive leverage. Once these two conditions are met, Normal Trade Relations are begun and the relationship is reviewed annually. By law, the President can revoke this status at any time, except for members of the World Trade Organization who enjoy Permanent Normal Trade Relations by treaty.⁵³ While the debate over extending Normal Trade Relations was highlighted by the discourse over humanitarian issues in China during the 1990s, today only five nations—Afghanistan, Cuba, Laos, North Korea, and Serbia—do not enjoy Normal Trade Relations with the US.⁵⁴

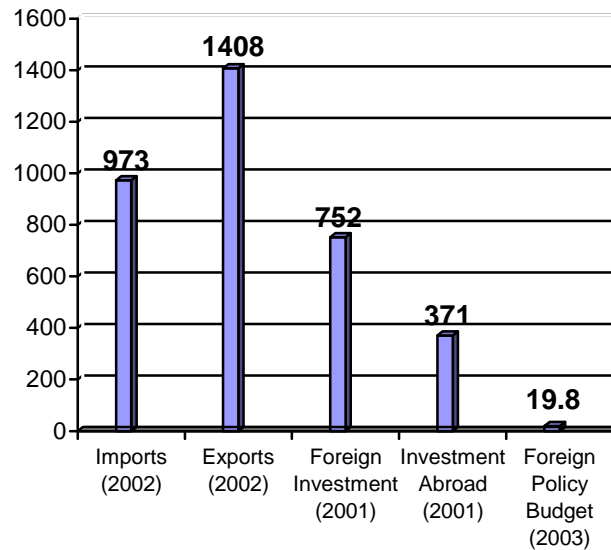
Bilateral free trade agreements offer another form of tariff related leverage. These agreements are negotiated to lower tariffs on certain classes of goods. The G.W. Bush administration has used these agreements to signal its support for moderate Arab governments (e.g., Morocco), and to signal its displeasure to other governments who failed to support the US in its bid to invade Iraq (e.g., Chile).⁵⁵

For developing nations, programs like the General System of Preferences or the Caribbean Basin Initiative (CBI) offer the opportunity to export certain classes of goods to the United States either duty-free or at low tariff rates.⁵⁶ As part of a macro-level policy to foster trade development, these programs have been highly successful. For example, US imports from the 24 CBI nations grew 250 percent between 1984 and 2000, with values exceeding \$22.5 billion in 2000. However, the United States has also withdrawn benefits under the General System of Preferences and the CBI from countries that expropriated US property, supported terrorism, or violated the rights of workers.⁵⁷

Financial Tools

The second set of economic tools available to policy makers are related to finance. These tools can be further divided into public sector tools and private sector tools. Public sector tools include its ability to directly control or influence foreign aid, trade promotion assistance, and lending by international financial institutions. In addition, the government can block or seize foreign assets within US territory. Meanwhile, the government's private sector tools include its ability to influence private finance and investment by US nationals.

Figure 3: Comparison of Trade and Financial Tools



Source: Nowels, *CRS Report RL31311*, 11; International Trade Association, Table 1; Dept of Commerce, "US Net Position at Year-end, 2001", 2.

Funding for the public sector tools generally falls under the Foreign Policy Budget.⁵⁸ While the President (and Congress) enjoy a large degree of control over this spending, the Foreign Policy Budget pales in comparison to the size of trade or private sector financial flows (see figure 3). Despite its relatively small size, Congress and the President use public sector tools heavily as influence mechanisms. To illustrate this point, of the 191 provisions of law that restrict foreign commerce for reasons of foreign policy or national security, 102 limit US programs that provide financial assistance and 24 others place restrictions on international financial institutions.⁵⁹

The majority of the \$19.8 billion foreign policy budget supports foreign aid. Foreign aid is provided on a bilateral basis through direct transfer, military assistance, and through other programs administered by the US Agency for International Development (USAID) and the Peace Corps. Figure 4 lists the leading recipients of US foreign aid in FY 02 and in the proposed FY 03 budget. While Israel and Egypt are traditionally the top two recipients of US bilateral aid, a comparison of the FY 02 and FY 03 budgets illustrates how foreign aid can be manipulated to support broader US policy goals from year to year.⁶⁰ In this case, aid was shifted in the FY 03 budget to increase support for "front-line" states in the war on terrorism such as the Philippines, Pakistan, Turkey, and Uzbekistan.⁶¹

Meanwhile, Andean states continue to receive significant aid to counter narco-trafficking as do the states of the former Soviet Union.⁶²

The remainder of the foreign policy budget supports trade promotion assistance and the activities of international financial institutions. Trade promotion assistance is

Figure 4. Leading Recipients of US Foreign Aid (in millions USD)

| Country | FY 01 Actual | FY 02 Estimate | FY 03 Request |
|----------------------|--------------|----------------|---------------|
| Israel | 2,814 | 2,788 | 2,900 |
| Egypt | 1,992 | 1,956 | 1,916 |
| Pakistan | 4 | 1,036 | 305 |
| Colombia | 49 | 426 | 538 |
| Jordan | 229 | 416 | 538 |
| Afghanistan | 184 | 530 | 98 |
| Peru | 90 | 198 | 189 |
| Ukraine ^b | 183 | 163 | 166 |
| Russia ^a | 169 | 165 | 158 |
| FRY Yugoslavia | 186 | 165 | 158 |
| Indonesia | 121 | 137 | 132 |
| Bolivia | 89 | 126 | 137 |
| Turkey | 2 | 232 | 21 |
| India | 60 | 80 | 153 |
| Philippines | 49 | 131 | 95 |
| Georgia | 100 | 123 | 97 |
| Uzbekistan | 31 | 161 | 44 |
| Kosovo | 150 | 118 | 85 |

^a Does not include \$289.6 million for cooperative threat reduction activities in Russia and FSU

^b Does not include \$56 million for cooperative threat reduction activities in Ukraine

Source: Nowels, *CRS Report RL31311*, 13.

provided primarily through the Export-Import Bank, the Overseas Private Investment Corporation, and the Commodity Credit Corporation.⁶³ While the objective of these entities is to support US business by underwriting credit and country risks, the President has authority to block the financing for any project for any reason.⁶⁴ In addition, Congress limits Import-Export Bank financing to specific countries that have detonated a nuclear weapon.⁶⁵

International financial institutions include the International Monetary Fund, the World Bank, and a number of regional lending banks. While US influence within these banks is significant, its power is not absolute.⁶⁶ US influence comes largely from instructing the American directors of these institutions to discourage or vote against certain loan activities.⁶⁷ Congress can (and does) exert indirect pressure on the lending practices of these institutions by limiting or blocking appropriations. For example, in 1998, Congress delayed increasing the US IMF contribution based on concerns regarding the bank's lending practices.⁶⁸ In other banks, such as the World Bank, the United States can limit its contributions to specific funds that support US foreign policy.

In contrast to the relatively limited size of the public sector financial tools, private sector finance is the second largest economic tool the President can influence.

Figure 5 shows direct investment between the US and other countries for 2001. At the macro level, the President's primary method of influencing private finance is through promoting general international stability and crafting international finance and trade policy that encourages positive investor behavior.⁶⁹ However, the President's general authority to influence private financing below this level is limited.⁷⁰ As previously discussed, the President can use emergency powers to impose comprehensive sanctions. In these cases, the President can even direct US firms to divest their assets; however, the domestic cost of this approach would likely be substantial. The President can influence the level of private interaction by restricting foreign aid or restricting trade promotion operations. These measures either change the business climate or increase the cost of private financing. In addition, under the Export Administration Act and other legislation, the President can forbid US lenders from financing exports to particular countries or individuals.⁷¹

Related to private sector finance is the President's ability to block or direct the forfeiture of the assets of foreign nations or individuals under a number of different US laws.⁷² For example, in 1990, President G.H.W. Bush blocked about \$1.7 billion in Iraqi deposits in US banks under the International Emergency Powers Act, the National Emergencies Act, and Section 301 of Title 3 of the US Code. Using the same provisions of law, President G.W. Bush seized these assets in order to "assist the Iraqi people and to assist in the reconstruction of Iraq."⁷³

**Figure 5. Comparison of Direct Investment, 2001
(Historical cost in billions USD)**

| Geographic Area | US Direct Inv Abroad | Foreign Direct Inv in the US |
|--------------------------------------|-----------------------------|-------------------------------------|
| Canada | 139,031 | 108,600 |
| Europe | 725,793 | 946,758 |
| Latin America/ Western Hemisphere | 269,556 | 58,881 |
| Africa | 15,872 | 19,522 |
| Middle East | 12,643 | 6,039 |
| Asia Pacific | 216,501 | 197,522 |
| International ^a | 2,278 | N/A |
| <i>Total:</i> | 1,381,674 | 1,321,063 |

^a "International" consists of operations spanning more than one country and that are engaged in petroleum shipping, water transportation, or offshore oil and gas drilling.

Source: Department of Commerce, "US Net International Investment Position at Yearend, 2001," Tables 3 and 4

The Department of the Treasury enforces blocking actions through the previously described Specially Designated Nationals and Block Persons list and Sanctions list. Exporters, importers, and even banks must verify that their customers are not blocked or prohibited. To facilitate compliance, the Treasury Department's Office of Foreign Assets Control developed tracking software to scan for blocked persons such as terrorists. While this software is not mandatory, US banks are "highly encouraged" to verify new and existing accounts by the 2001 USA Patriot Act.⁷⁴ In addition, the Department of the Treasury established a new office, the Executive Office for Terrorist Financing and Terrorist Crimes, to coordinate the Treasury Department's anti-terror efforts with the Department of Homeland Security. Its responsibilities include developing strategies against terrorism and working with the financial services sector to locate terror-related accounts and groups.⁷⁵ Despite these efforts, the major limitation to blocking and forfeiture as a tool is that the assets must be present on US soil to be effective.

Ancillary Tools

The final economic tool available to the US government enables the President to restrict a number of lower level transactions that occur between the US and other nations. The President can restrict the docking of foreign ships and landing rights for aircraft transiting in and out of US airspace. In addition, the government can impede communications, limit or completely deny entry visas, and issue travel restrictions. Moreover, the government can limit purchases from residents or businesses from other countries.⁷⁶ While these actions may not seem particularly impressive as coercive tools, they can serve as important signaling devices.⁷⁷

Summary: Assessing the Nature and Dimensions of Economic Power

To summarize the main points of this chapter, the United States converts its economic mass into power primarily by granting access to markets and supporting systems that facilitate stabilization of currency and flows of capital. Over the last 50 years, the United States' emphasis on trade liberalization has given rise to a global system of complex interdependence that emphasizes multilateral action. Yet despite this emphasis on multilateralism, the United States also uses its economic power unilaterally to support its interests and agenda. This power is used as a signaling device to highlight US intentions,

as carrots to encourage positive behavior from other nations, and as sticks to coerce or punish bad actors.

Although control of the economic instrument is divided between Congress and the President, the split is not entirely competitive. Congress has granted the President significant control over exports and, to a lesser degree, imports in time of national emergency. In addition, trade legislation often casts the President in the role of "good cop" by allowing him to waive restrictive provisions law enacted by Congress. This grants the President significant coercive influence in negotiations with nations whose behavior "violates" US law.

The economic tools available to policy makers fall into three broad categories: trade tools, financial tools, and ancillary tools. In terms of dollar value, the trade tool kit is the largest economic tool. The President enjoys a medium level of control over these tools with the potential for a large impact on the target nation. . Financial tools are divided into public and private sector tools. The President has the greatest control over public sector tools such as foreign aid and trade promotion assistance. Although these tools are the smallest in terms of dollar value, they are used heavily as influence mechanisms—especially among smaller countries supporting the war on terror. The President has far less control over private investment and finance; however, he does have the power to block or seize foreign assets on US soil. Ancillary tools are the least impressive of the economic tools. Nevertheless, they serve as another set of tools policy makers can utilize as signaling devices. With these capabilities in mind, the next chapter addresses how they complement the capabilities of the military instrument in a coercive strategy.

Notes

¹ Gary Clyde Hufbauer, Jeffery J. Schott and Kimberly Ann Elliot, *Economic Sanctions Reconsidered: History and Current Policy*, Vol. 1, 2nd Ed. (Washington, D.C.: Institute for International Economics, 1990), 63-64.

² Paul Kennedy, *The Rise and Fall of Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), xvi-xvii.

³ Gautam Sen, *The Military Origins of [Industrialization] and International Trade Rivalry* (New York: St. Martin's Press, 1991), 69-71.

⁴ Joseph S. Nye, "The Changing Nature of World Power," in *The United States in the World Political Economy* ed. Theodore Rueter (New York: McGraw-Hill, 1994), 36-37.

⁵ Ibid.

⁶ Baldwin, *Economic Statecraft*, 115-17.

Notes

⁷ The importance of foreign trade to US GNP is growing in absolute terms, up from 13 percent in 1971 to over 30 percent today. Ambassador Robert B. Zoellick, "Globalization, Trade, and Economic Security," remarks, National Press Club, Washington, DC, 1 October 2002.

⁸ The concept of the "fleet in being" was important to the German and British maritime strategies leading up to World War I. Essentially, the German strategy was to tie down the British navy near the English Channel by leaving German battleships in port. With the British navy largely tied up in home waters defending against the German "fleet in being," German submarines were free to attack British shipping with relative impunity. See Jonathan Steinberg, *Yesterday's Deterrent: Tirpitz and the Birth of the German Battle Fleet* (New York: MacMillan, 1966), 1-100 passim.

⁹ Baldwin, *Economic Statecraft*, 115-19, Steve Chan and A. Cooper Drury, "Economic Statecraft: An Overview" in *Sanctions as Economic Statecraft*, ed. Steve Chan and Cooper Drury (New York: St Martins Press, 2000), 3-4.

¹⁰ Georg Schild, *Bretton Woods and Dumbarton Oaks: American Economic and Political Postwar Planning in the Summer of 1944* (New York: St. Martin's Press, 1995), ix-x and 16-17.

¹¹ Michael J. Trebilcock and Robert Howse, *The Regulation of International Trade* (New York: Routledge, 1995), 19-20. Not surprisingly, economists disagree over Smoot-Hawley's precise impact on the US economy during the Great Depression. Some argue that its purported negative effect is a myth, while others argue that Smoot-Hawley deepened the Great Depression in a significant way. What is clear is that US economic thought largely rejected protectionism after Smoot Hawley and turned increasingly toward reciprocal trading agreements. See Anthony O'Brien, "Smoot-Hawley Tariff," EH.Net Encyclopedia, ed. Robert Whaples, 15 August 2001, online, Internet, 15 February 2003, available from <http://www.eh.net/encyclopedia/contents/obrien.hawley-smoot.tariff.php>. However, Smoot-Hawley did negatively affect other nations, particularly Japan. The US was Japan's leading trading partner in the 1920s. Some historians argue that the impact of US protectionism on the Japanese economy in the 1930s led to a resurgence of nationalism, the rise of anti-western sentiment, and a policy aimed at continental expansion—factors that set the Japanese on a course toward Pearl Harbor in 1941. See D. Clayton James, "American and Japanese Strategies in the Pacific War," in *Makers of Modern Strategy: From Machiavelli to the Nuclear Age* ed. Peter Paret (Princeton, N.J.: Princeton University Press, 1986), 704-05

¹² In 1934, Congress passed the Reciprocal Trade Agreement Act that authorized bilateral trade agreements between the United States and foreign nations. At the start of World War II, thirty-one agreements had been signed. Trebilcock and Howse, 19-20.

¹³ Schild, *Bretton Woods and Dumbarton Oaks*, 17.

¹⁴ Ibid., x-xiii.

¹⁵ Ibid., xiii.

¹⁶ Baldwin, *Economic Statecraft*, 207.

¹⁷ International Monetary Fund, "About the International Monetary Fund, IM, Introductory Information," on-line, Internet, 22 February 2003, available at <http://www.imf.org/external/about.htm>. While the IMF began work immediately following World War II, the agreement was not fully implemented until 1958. In the

Notes

interim, the Marshall Plan was largely responsible for stabilizing the currencies of Western Europe. See Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 2nd ed. (Boston, Mass.: Scott, Foresman/Little, Brown, 1989), 78-82.

¹⁸ The World Bank Group, "About Us," on-line, Internet, 22 February 2003, available at <http://web.worldbank.org/wbsite/external/extaboutus>.

¹⁹ World Trade Organization, "The World Trade Organization," on-line, Internet, 22 February 2003, available from http://www.wto.org/res_e/doload_e/indr_e.pdf, 2.

²⁰ Ibid., 3.

²¹ Keohane and Nye, *Power and Interdependence*, 21-24.

²² Ibid., 25-29.

²³ Ibid.

²⁴ Trebilcock and Howse, 14; Ibid., 51.

²⁵ Congressional Budget Office, *The Domestic Costs of Sanctions on Foreign Commerce* (Washington, D.C.: USGPO, March 1999), 19.

²⁶ Nye, *The Paradox of American Power*, 78 and 84-85.

²⁷ Substitution is the ability of a nation to find an alternate suppliers or suitable substitutes for essential goods that are cut-off by economic sanctions. Richard Haass, "Economic Sanctions: Too Much of a Bad Thing," June 1998, *Brookings Institution Policy Brief #34*, n.p., on-line, Internet, 22 February 2003, available at <http://www.brook.edu/comm/policybriefs/pb34.htm>.

²⁸ Keohane and Nye, *Power and Interdependence*, 230-31.

²⁹ CBO, "The Domestic Cost of Sanctions," 13.

³⁰ Quoted in The National Security Project Oral History Roundtables, *International Economic Policymaking and the National Security Council*, mod. Ivo H. Daalder and I.M. Destler (College Park, Md.: The Center for International and Security Studies at Maryland, 2000), 38.

³¹ Lael Brainard and Hal Shapiro, "Fast Track Trade Promotion Authority," December 2001, *Brookings Institution Policy Brief #91*, n.p., on-line, Internet, 23 February 2003, available at <http://www.brook.edu/comm/policybriefs/pb91.htm>, 1-4.

For information on current Fast Track authority, see Lenore Sek and William H. Cooper, *CRS Report RL31376 Trade Promotion (Fast Track) Authority: Summary and Analysis of Selected Major Provisions of HR 3005 and Title XXI of HR 3009* (Washington, D.C.: Congressional Research Service, 14 June 2002).

³² In this context, however, sanctions refers to the broad set of actions the government can take to reduce the flow of goods, services, and capital between the United States and another country.

³³ CBO, "The Domestic Cost of Sanctions," 5.

³⁴ Dianne E. Rennack and Robert D. Shuey, *CRS Report 97-949 F Economic Sanctions to Achieve US Policy Goals: Discussion and Guide to Current Law* (Washington, D.C.: Congressional Research Service, 5 June 1998), 3. Although a bit out of date (1998), this document provides a comprehensive list of sanctions authority present in US law.

Notes

³⁵ See Executive Order 8977, Blocking Property and Prohibiting Transactions With The Taliban, 6 July 1999, online, Internet, 1 March 2003, available at <http://usinfo.state.gov/topical/pol/terror/99070602.htm>.

³⁶ Rennack and Shuey, *CRS Report 97-949 F*, 7-26. PL 105-118; 111 Stat. 2386 prohibits Import-Export Bank funding to non-nuclear weapons states that detonate a nuclear explosive after November 26, 1997. Meanwhile, section 2421 of the same statute withholds foreign assistance from nations whose agents or representatives in the United States are cited as “parking scofflaws.”

³⁷ *Ibid.*, 3.

³⁸ For provisions of US law, see Rennack and Shuey, *CRS Report 97-949 F*, 7-26. For active enforcement of sanctions, see Department of the Treasury, “Sanctions Program and Country Summaries,” 1 March 2003, on-line, Internet, 17 March 2003 available at <http://www.ustreas.gov/offices/enforcement/ofac/sanctions/index.html>.

³⁹ Every President uses a different approach to the coordination of economic, domestic, and national security policy. For example, the early Reagan Administration used four coordinating groups—the Trade Policy Committee, the Cabinet Council on Economic Affairs, the Cabinet Committee on Commerce and Trade, and the National Security Council. According to Roger Porter, an official in the Reagan administration, any of these groups could legitimately lay claim to oversight and control of the economic instrument. However, by the end of the Reagan Administration, this structure had evolved into the National Security Council, the Economic Policy Council, and the Domestic Policy Council. Meanwhile, President G.H.W. Bush disliked formal councils and relied on more informal arrangements. See The National Security Project Oral History Roundtables, 31-33.

⁴⁰ Ivo H. Daalder and I.M. Destler, “A New NSC for a New Administration,” *Brookings Institution Policy Brief #68*, November 2000, n.p., on-line, Internet, 20 March 2003, available at <http://www.brook.edu/dybdocroot/policybriefs/pb068/pb68.htm>, 6.

⁴¹ The National Security Project Oral History Roundtables, 37-39.

⁴² Joint Publication 1, I-7.

⁴³ In this context, “the government” refers to the federal government. Although this may seem obvious to the casual reader, many states and even cities passed laws to restrict trade with other nations during the 1990s. However, the Supreme Court struck down this behavior, ruling that state or municipal regulation of trade violates the Commerce clause of the US Constitution. See *Crosby v. Foreign Trade Council*, 181 F3d 38 (1st Cir 2000).

⁴⁴ For import/export figures, see International Trade Administration, “Foreign Trade Highlights,” n.p., on-line, Internet, 18 March 2003, available at <http://www.ita.doc.gov/td/industry/otea/usfth>, Table 1.

⁴⁵ CBO, “The Domestic Cost of Sanctions,” 14.

⁴⁶ *Ibid.*, 15.

⁴⁷ For example, the 1996 Helms- Burton Act applied economic sanctions on an extraterritorial basis to countries who trade with or invest in Cuba. Congress also enacted similar extraterritorial legislation against Iran and Libya. Both President Clinton and

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President Bush utilized the statutes' "escape clause" to prevent these sanctions from taking effect. See Center for Strategic and International Studies, "The Helms Burton Law: A Detriment to US Interests in the WTO," *CSIC Watch #173*, 26 March 1997, on-line, Internet, 17 March 2003, available at <http://www.csis.org/html/7wtch173.html> and Haass, "Economic Sanctions," 3-4.

⁴⁸ Ibid.

⁴⁹ Three major statutes give the President authority to regulate exports. The first is the Export Administration Act that gives the President authority to limit any export for reasons of foreign policy, national security, or critical shortage. Although this authority expired in 1994, President Clinton extended its authority via Executive Order. Two others include the Atomic Energy Act and the Arms Export Control Act that give the President a large degree of control over high-technology exports. Ibid., 14-15.

⁵⁰ The Department of the Treasury's Office of Foreign Asset Control is charged with enforcing the Specially Designated and Blocked Persons List. See Department of the Treasury, *Specially Designated Nationals and Blocked Persons*, 10 March 2003, on-line, Internet, 17 March 2003, available at <http://www.ustreas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf> and Patterson Brown, "Export Controls," *Export America*, July 2000 (updated April 2002), on-line, Internet, 17 March 2003, available at <http://web.ita.doc.gov/ticwebsite/FAQs.nsf>, 1-3.

⁵¹ Control of these tools rests within the Department of State's Bureau of Economic and Business Affairs, which is the focal point for trade policy formulation and negotiation.

⁵² CBO, "The Domestic Cost of Sanctions," 15.

⁵³ See CBO, "The Domestic Cost of Sanctions," 15-16 and White House Office of the Press Secretary, "Background Paper on US-Vietnam Bilateral Trade Agreement," 8 June 2001, on-line, Internet, available at <http://www.whitehouse.gov/news/releases/2001/06/20010608-4.html>.

⁵⁴ China entered the WTO in November 2001 and was thus extended Permanent Normal Trade Relations. For details on Normal Trading Relations, see Department of the Treasury, "Normal Trade Relations," 19 December 2002, n.p., on-line, Internet, available at www.itds.treas.gov/mfn.html.

⁵⁵ See Jeffery Sparshott, "Morocco to Discuss Free Trade With US," *Washington Times Online*, 22 January 2003, online, Internet, 08 February 2003, available at: <http://washtimes.com/buisness/20030122-90043004.htm> and "US-Chile Free Trade Agreement," Public Citizen, n.p., on-line, Internet, 18 June 2003, available at: <http://www.publiccitizen.org>.

⁵⁶ CBO, "The Domestic Cost of Sanctions," 15-16.

⁵⁷ Ibid., 16.

⁵⁸ Larry Nowels, *CRS Report RL31311 Appropriations for FY 2003: Foreign Operations, Export Financing, and Related Programs* (Washington, D.C.: Congressional Research Service, 2 December 2002), 3.

⁵⁹ Rennack and Shuey, *CRS Report 97-949 F* in CBO, "The Domestic Cost of Sanctions," 16.

⁶⁰ Nowels, *CRS Report RL31311*, 12.

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⁶¹ While there is support within Congress for this strategy, there is significant resistance to the administration's proposal to waive all aspects of US law with respect to these countries. According to Congressional Research Agency, Congress is likely to retain the authority to waive provision of law on a case-by-case basis in future legislation. For example, Congress waived legal restrictions barring aid to countries that engaged in missile proliferation, whose leaders came to power via a coup, and were behind in debt payments with respect to Pakistan. *Ibid.*, 25.

⁶² *Ibid.*, 12-13.

⁶³ CBO, "The Domestic Cost of Sanctions," 17.

⁶⁴ Import-Export Bank of the United States, *2002 Annual Report*, on-line, Internet, 18 March 2003, available at <http://www.exim.gov>.

⁶⁵ CBO, "The Domestic Cost of Sanctions," 18.

⁶⁶ For example, voting power within the IMF is related to the level of historical contributions measured in "quotas." Currently, the United States has the largest vote with a 17.46 percent share of total worldwide quotas; however, this too few to unilaterally block an action. See International Monetary Fund, "IMF Member's Quotas and Voting Power, and IMF Board of Governors," 5 March 2003, on-line, Internet, 18 March 2003, available at [http://www.imf.org/external/np/sec/memdir/](http://www.imf.org/external/np/sec/memdir/members.htm)

[members.htm](http://www.imf.org/external/np/sec/memdir/members.htm)

⁶⁷ CBO, "The Domestic Cost of Sanctions," 19.

⁶⁸ *Ibid.*, 18.

⁶⁹ The National Security Project Oral History Roundtables, 40-43.

⁷⁰ CBO, "The Domestic Cost of Sanctions," 19-20.

⁷¹ *Ibid.*, 19-20.

⁷² "Blocking" allows the President to freeze the assets of designated individuals and governments. Although the assets remain the property of the government or individual in question, the Office of Foreign Area Control assumes control of the assets. "Administrative forfeiture" results in loss of title and all rights to the asset in question. See Department of the Treasury, "Office of Foreign Assets Control: Frequently Asked Questions," n.p., on-line, Internet, 22 March 2003, available at <http://www.uateas.gov/offices/>

[enforcement/ofac/faq/](http://www.uateas.gov/offices/enforcement/ofac/faq/), 6. Also see Department of Justice, "Types of Federal Forfeiture," n.p., on-line, Internet, 22 March 2003, available at <http://www.usdoj.gov/jmd/afp/07federalforefiture/index.htm>.

⁷³ See Executive Order 12722, Blocking Iraqi Government Property and Prohibiting Transactions With Iraq, 2 August 1990, online, Internet, 1 April 2003, available at <http://www.treas.gov/offices/>

[/eotffc/ofac/legal/eo/12724.pdf](http://www.treas.gov/offices/eotffc/ofac/legal/eo/12724.pdf); Executive Order, Confiscating and Vesting Certain Iraqi Property, 20 March 2003, online, Internet, 1 April 2003, available at <http://www.whitehouse.gov/news/releases/2003/03/20030320-10.html>.

⁷⁴ Department of the Treasury, "Office of Foreign Assets Control: Frequently Asked Questions," 10-14. Also see Glenn Simpson, "Treasury's New Office to Focus on Fighting Terror Financing," *Wall Street Journal Online*, 3 March 2003.

⁷⁵ Simpson, "Treasury's New Office to Focus on Fighting Terror Financing."

⁷⁶ CBO, "The Domestic Cost of Sanctions," 19-20.

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⁷⁷ Richard W. Conroy in *Smart Sanctions*, 163-64.

CHAPTER 3

COMPARING THE MILITARY AND ECONOMIC INSTRUMENTS

The key to understanding military and economic complementarity in a coercive strategy centers on how the different characteristics of these tools interact to enhance the coercive effect. Conducting this analysis, however, requires the strategist to understand the principles of coercion that guide the application of economic and military power as well as the similarities and differences between the two instruments. This chapter provides the analytical foundation for this analysis by comparing the military and economic instruments as tools of coercion. It begins by exploring the principles of coercion common to the military and economic literature. It then describes how the military and economic instruments create effects in order to note their similarities and highlight their differences.

Principles of Military and Economic Coercion

The military and economic literature shares a number of similar ideas on "how to coerce" a target nation, but the vocabularies are different. Therefore, this section begins by defining coercion. Building on this discussion, it then searches for common issues within the literature that impact coercive strategy.

A Definition of Coercion

RAND's Daniel Byman, Matthew Waxman, and Eric Larson offer the most satisfying definition of coercion: "Coercion is the use of threatened force, including the limited use of actual force to back up the threat, to induce an adversary to behave differently than it otherwise would."¹ The authors go on to discuss the key subcategories

of coercion that mirrors those first suggested by Thomas Schelling in his classic work, *Arms and Influence*.

Coercion is typically broken down into two subcategories: compellence and deterrence. Compellence involves attempts to reverse an action that has already occurred or to otherwise overturn the status quo, such as evicting an aggressor from territory it has just conquered or convincing a proliferating state to abandon its existing nuclear weapons programs. Deterrence, on the other hand, involves preventing an action that has not yet materialized from occurring in the first place. Deterrence would include dissuading an aggressor from trying to conquer a neighboring state or convincing a country that desires nuclear weapons not to seek them.²

While this definition stresses the use of military power, it shares an emphasis on "changing behavior" (rather than destruction) with the economic literature. For example, economists Steve Chan and A. Cooper Drury define economic sanctions as "the actual or threatened withdrawal of economic resources to effect a policy change on the target." Further, they write, "the intent is to influence the target, not to destroy it. The focus of the attempted influence is the target's intentions—specifically, its calculations of the costs and benefits—and not its capabilities."³ Therefore, both bodies of literature agree the purpose of coercion is to convince the target nation to behave differently even though it retains the power to resist.

Comparing Coercive Strategies in the Economic and Military Literature

The nexus between the economic and military literatures centers around the idea that coercive strategies will affect the target's cost/benefit calculus in a decisive way. In the military literature, this idea underlies three types of strategies designed to impose different types of costs: 1) *punishment* that serves to increase costs by inflicting pain on the target's population or economy, 2) *increasing risk* that gradually ratchets up the pain, and 3) *denial* that lowers the benefit of target actions by attacking fielded military forces.⁴ Similarly, the economic literature recognizes that sanctions can be applied in different ways to produce different effects. For example, sanctions may be comprehensive, targeting all aspects of economic intercourse, or they may be targeted

(through so-called "smart sanctions") on particular sectors such as finance, commodities, travel, or military equipment.⁵

Perhaps the most important commonality between the military and economic literature in terms of strategy is the importance of addressing feasibility, collateral costs, counter-coercion strategies, and outcomes in the development and execution of strategy.

Addressing Feasibility. Feasibility addresses whether and how a target nation can be coerced. Two related issues impact feasibility in the combined literature. First, there must be a "mechanism" that economic or military power can favorably affect within the target nation, and second, the amount of force required is directly related to the sender's demands of the target.

The military literature argues that force is translated into political action through a "mechanism," a "means-to-ends" chain that explains why an adversary decides to change its policy as the result of coercion.⁶ For example, in a risk strategy, targets are selected that gradually increase costs to the adversary's leaders. The "mechanism" in this scenario assumes the adversary's government recognizes the increasing costs and then acts to avoid future costs by changing its policy.⁷ To implement this strategy, intelligence must determine what the adversary's government values, and the resulting target sets must be actionable using military force. Similarly, the economic literature recognizes that for sanctions to produce a coercive effect, trade or finance must be interrupted in a significant way that affects the target government's decision calculus.⁸ A study by economist Jonathan Kirshner suggests there are two points where economic sanctions can exert "maximum pressure": 1) on the central government and 2) on core groups whose political support allows the regime to remain in power. In addition, Kirshner's study identifies three principal mechanisms through which economic sanctions operate: 1) through pressure designed to affect a government's cost/benefit calculation, 2) through overthrow of the regime because the sanctions weaken the government's grip on power, and 3) through differential effects within and across the government that change the internal balance of political power.⁹ Other studies suggest that instability within the target nation enhances the effectiveness of these mechanisms.¹⁰ Using the "mechanism" concept, the analyst can also "guess" at the amount of force required to achieve a decisive effect.

Generally, the level of force required to successfully coerce a target is directly related to the sender's demands. For example, in their landmark 1990 survey of economic sanctions from 1915 onward, economists Gary Hufbauer, Jeffery Schott, and Kimberly Ann Elliott concluded, "although it is not true that sanctions 'never work,' they are of limited utility in achieving foreign policy goals that depend upon compelling the target country to take actions it stoutly resists."¹¹ Further, Chan and Drury add,

The relevant calculation [to comply with sender demands] is the target officials' relative valuation of the disutility of accommodating versus opposing the sender's demands. Both options are obviously unpalatable; the pertinent question, however, is which course of action is less unacceptable. The target officials are less inclined to comply if they believe that the sender's real purpose is to bring about their political or physical demise (such as possibly in episodes directed at Cuba and Iraq). It is also hardly surprising that sanctions seeking 'transcendent' goals such as democracy and human rights are more likely to fail. Conversely, efforts aimed at specific, quantifiable [behavioral] changes by the target tend to have a greater chance of success from the sender's perspective.¹²

Similarly, RAND's Daniel Byman, Matthew Waxman, and Eric Larson argue, "coercing powers may attempt the impossible, trying to change the decision making calculus of an adversary that cannot, for a variety of reasons, alter its behavior sufficiently to meet the coercing power's demands. In essence, some adversaries cannot be coerced."¹³ In addition to discussing how to impose costs on the target nation, the military and economic literature also spends considerable time addressing how to mitigate collateral costs.

Addressing Collateral Costs. Collateral costs address the unanticipated or unwanted costs that the application of force imposes on the sender nation, target nation, and third parties. Not surprisingly, collateral cost concerns differ between the military and economic instruments in a coercive campaign.

Military collateral concerns center on preventing unintended damage or casualties within the target nation. This concern is based not only on the humanitarian desire to prevent unnecessary pain and suffering, but also on the fear that casualties may lead to unwanted political backlash at home and abroad.¹⁴ As a result, the application of military force tends to be restrained relative to its potential.¹⁵

On the other hand, economic collateral concerns center on political support in two different dimensions. One dimension concerns the impact of sanctions on the target nation's civilian population. The imposition of sanctions may place direct hardships on civilian populations, often hurting the weakest members of society. More significantly, regimes may act to amplify this hardship as a counter-coercion strategy. For example, both Serbia and Iraq deliberately created a humanitarian crisis to weaken international support for sanctions.¹⁶

A second dimension concerns the cost imposed on third parties. The sanctioning of Iraq illustrates this problem. In the first year of sanctions, 21 governments applied for economic assistance totaling \$30 billion under Article 50 of the UN Charter due to the disruption in trade. This disruption heavily affected neighboring states, but also extended to Eastern Europe, France, and Russia.¹⁷ While the US acted to address these costs in a number of ways including providing debt forgiveness, foreign aid, and lobbying for increased support from international financial institutions, most nations were never fully compensated for their losses.¹⁸ Ultimately, continued high costs over the long term led directly to the weakening of international support for sanctions against the Iraqi regime.¹⁹ Also, as previously noted, the target may attempt to weaken a coercive campaign by using counter-coercion strategies.

Addressing Counter Coercion Strategies. Target governments do not remain static during a coercion attempt. They often implement a counter-coercion strategy to weaken the coercive force whether it be economic or military in nature. As discussed in the last paragraph, a target nation's action to enhance the negative humanitarian impact of sanctions is one example of a counter-coercion strategy. In the military literature, Daniel Byman and Matthew Waxman catalogued three categories of counter-coercion strategies: civilian suffering-based strategies, coalition-fracturing strategies, and casualty-generating strategies.²⁰ Together, these categories capture a majority of the counter-coercion methods described in the combined literature. A brief discussion of each of these strategies follows.

Civilian suffering-based strategies are designed to emphasize the negative humanitarian effects of coercion and are perhaps the most common counter-coercion strategy.²¹ The military seeks to counter this strategy through technology and restraint.

On the economic side, sender nations seek to control the negative humanitarian effects of sanctions by either targeting particular segments of the economy using "smart sanctions" or by other methods such as controlling food distribution using international organizations. The UN's administration of the "oil-for-food" program in Northern Iraq is one example of this approach.²²

Coalition-fracturing strategies are non-military acts used by a target nation designed to "drive a wedge" between members of a coalition. While many of these acts are diplomatic in nature, economic actions frequently underlie the dialogue. For example, Saddam Hussein routinely cut off legal Iraqi oil shipments in an attempt to "blackmail the UN Security Council" and sold oil at reduced prices to further his political agenda.²³ In addition, he feigned cooperation with UN weapons inspectors while simultaneously hiding and dispersing equipment and material needed to reconstitute his weapons programs. This cooperation led some nations to call for an end to sanctions as early as 1993.²⁴ In another example, one scholar suggests Serbia's Slobodan Milosevic used the threat of large refugee flows in an attempt to undermine Macedonian and European support for the use of military force against him.²⁵

Causality-generating strategies focus on the target's attempt to inflict high US as a method of undermining US support or restraining US action. The prospect of high US casualties is a particular concern for policy makers. However, studies show US domestic support for sustaining casualties is generally related to the level of US interest at stake. In situations where US interests are compelling, casualties tend to have little effect on domestic support for US operations. Even when US interests are less compelling, a causality-generating strategy risks backlash when the target resorts to terrorism or publicly mistreats US soldiers.²⁶

Addressing Outcomes. As should be apparent from the preceding discussion, the need to counter a thinking, reactive adversary makes predicting the outcome of coercion particularly difficult. To make things even more complicated, one strategist argues a coercive strategy should be planned and executed with at least three outcomes in mind: those within the US domestic polity, those within the target nation, and those among third parties.²⁷ However, the point to emphasize is that successful coercion depends a great deal upon the target's actions and will to resist. Senders must account for likely target

counter-strategies as much as possible in the initial strategy design, whether they use military or economic levers.²⁸ Perhaps most importantly, the sender must be prepared to escalate in response to target actions.²⁹ It is also important to remember that outcomes are based on the *combined effects* of economic and military power. Therefore, the question of whether a particular instrument of power is "working" is irrelevant. The real question for strategists is: how is the threat or actual employment of an instrument of power affecting the target nation's decision mechanism *at the margin*? And how are these effects likely to change *over time*?³⁰ These questions guide the analysis of the next section, which is a comparative study of military and economic power as coercive tools.

Comparing Economic and Military Power as Coercive Tools

This section compares military and economic power as coercive tools by discussing how each instrument affects the target *at the margin over the short, medium and long terms*. This approach is important to the general argument because planning for cooperative uses of economic and military power depends upon the different types of effects one might expect from each over time. The analysis begins by discussing the similarities between economic and military power.

Similarities Between Coercive Uses Of Economic and Military Power

The military and economic instruments of power share at least five important similarities: both require a coalition of some form; both raise similar "just war" concerns; each requires time to achieve substantial effects; the nature of the effects each instrument produces tends to change over time; and measuring the higher-order effects on the target's decision mechanism is difficult. To understand the complementarity of these instruments, a discussion of each one follows.

The Application of Military and Economic Power Frequently Requires a Coalition. The use of the economic or military instrument often requires a coalition of some type. However, the underlying reasons for this requirement differ between the economic and military instrument.

For the military instrument, coalitions are necessary for both military and political reasons. Militarily, the US relies on foreign bases for logistics support and staging—this

applies even to naval forces. For example, US airpower (both sea and land-based) increasingly relies upon land-based tanker aircraft to extend their range. As an example, US Air Force tankers provided air refueling for 80 percent of carrier-based naval strike sorties during Operation Enduring Freedom.³¹ These aircraft require intermediate basing somewhere within the theater of operations which necessarily requires foreign support. As the force requirements grow, the circle of critical support bases also grows to include a requirement for forward bases. Therefore, for logistics and staging purposes alone, there is a requirement for at least some international support for most US military operations.³² Politically, coalitions received mixed reviews in the military literature. Scholars of military coercion are attracted by the domestic and international legitimacy coalitions bring to military action.³³ However, divergent interests of coalition members and shared control of strategy can serve to limit escalation and undermine the credibility of the coalition to the target nation. In the end, the size and shape of a military coalition is a "balancing act" that depends upon context.³⁴

Conversely, the realities of complex interdependence—manifested by increasing trade and financial relations between nations—makes coalitions an increasingly important part of successful economic sanctions.³⁵ In fact, some influential experts, such as Ambassador Richard Haass, argue that multilateral support should be a prerequisite for the imposition of economic sanctions.³⁶ Even then, multilateralism is no guarantor of success since a powerful or wealthy ally of the target may serve as a "black knight" to foil the efforts of a small coalition.³⁷ Therefore, maintaining the unity of a coalition is of critical importance, since, as sanctions scholar Kimberly Ann Elliot argues, the greatest barrier to making economic sanctions an effective foreign policy tool is the lack of political will among world leaders.³⁸

However, building and maintaining these coalitions can present problems. As previously discussed, the disruption of trade places severe costs on neighbors and key trading partners. As an example, Turkey estimates it lost \$35 billion in bilateral trade with Iraq since UN sanctions were imposed in 1991.³⁹ Moreover, as Ambassador Richard Haass notes, "sanctions fatigue" tends to set into a coalition once the issue that led the sanctions wanes in its emotional impact.⁴⁰ Therefore, economic and political resources must be devoted not only to mitigating the negative impacts of sanctions, but

also to maintaining the integrity of the sanctions.⁴¹ For example, the United States ignored Turkey's \$400 million annual import of illicit Iraqi energy products and allowed Jordan to resume \$450 million in annual trade with Iraq to partially offset the economic impact of the sanctions and to keep the coalition intact.⁴² While coalitions add political legitimacy to a coercion attempt, the use of military and economic power still raises moral and legal concerns.

The Use of Military and Economic Power Raise Similar Just War Concerns. While the use of the military instrument clearly raises "just war" concerns, applicability to the economic instrument is less clear. The "just war" tradition of morality and legality in war exists at two levels. The first level, *jus ad bellum*, assesses the *cause* of the war (i.e., "just or unjust" war). Meanwhile, the second level, *jus in bello*, assesses the *conduct* of the war (i.e., fighting "justly or unjustly").⁴³ An important tenant of *jus ad bellum* is that the use of military force is a last resort. Accordingly, many policy makers view economic sanctions as a "more humane" way to achieve national policy objectives.⁴⁴ The question then becomes, do the principles of *jus ad bellum* or *jus in bello* apply to economic sanctions?

A number of scholars argue that since economic sanctions have the capability to produce great human suffering, they should receive the same political and ethical treatment that the use of military force receives.⁴⁵ This contention is further supported by "just war" experts who maintain that the *in bello* principles of proportionality and discrimination should apply to economic sanctions.⁴⁶ Accordingly, just as military forces seek to avoid collateral damage, economists have increasingly turned to narrowly targeted sanctions (or "smart sanctions") as an alternative to comprehensive sanctions.⁴⁷

Decisive Effects Require Time to Achieve. No matter which instrument of power is used, successful coercion requires time and persistence. Of course, this observation begs two important questions: how much time, and how much persistence? Unfortunately, these are questions whose answers are almost "unknowable," since coercion does not occur at one precise instant in time.⁴⁸ Instead, as pointed out earlier, the answers are related to the sender's political demands, the correlation between the force applied and the efficiency of the "mechanism," the interplay between major third parties, as well as the success of the target's counter moves.

As a general observation, economic sanctions are perceived to act slowly, although the "speed" of onset depends upon the type of economic tools employed.⁴⁹ To illustrate the point, the imposition of trade sanctions may not immediately create shortages, since the target must first deplete stocks on hand. Moreover, rationing, cannibalization, and substitution are trade-related counter-coercion tools that can delay the onset of significant shortages. As an example, Iraq restored essential services such as water and power following the Gulf War, despite comprehensive economic sanctions, largely by cannibalizing parts from existing infrastructure.⁵⁰

However, the observation that economic sanctions work slowly does not necessarily imply that military force works quickly. No example illustrates this point better than the 1999 bombing of Serbia in Operation Allied Force. According to RAND's Stephen Hosmer, Serbian President Slobodan Milosevic refused to sign the Rambouillet Agreement based on the calculation that any bombing would be limited and that he could get better terms by holding out.⁵¹ At the same time, the Clinton administration and its NATO allies believed Milosevic would submit after only a few days of bombing.⁵² While the effects of the air campaign and a strong suggestion that ground forces would be used ultimately brought Milosevic around, it required nearly nine weeks of increasingly harsh bombing to achieve capitulation.⁵³ In addition to the idea that decisive effects take time to achieve, another common theme resides in the nature of effects—as well as the general level of coercion—which tend to change over time.

The Nature Of Effects Change Over Time. Target populations and governments can exhibit undulations in mood and perception during a coercive attempt. This dynamic is much like to a chess game.⁵⁴ A player enters a game to win. As the game progresses, a player's assessment of where he stands depends upon his competitor's last move and the moves left on the board. Thus, a target government never challenges a sender if it expects to lose—it would settle for the initial terms offered by the sender. As time progresses, a target government's confidence is based on an assessment of its progress based on the sender's response to the target's last move. If a target begins to lose, it seeks ways to adjust its strategy. As these moves play out, a target either continues to resist the sender or seeks to settle on the best terms practical.

In a coercive campaign, populations may react to bombing and sanctions in similar ways. The onset of the coercion attempt may create a "boomerang effect" as populations rally around the government and focus their anger outward.⁵⁵ One example is the "Rock and Bomb" concerts held on Belgrade's bridges during the 1999 bombing of Serbia. During the first days of the bombing, these concerts attracted crowds as large as 100,000, each chanting slogans supportive of the government. This weakened the position of opposition leaders who had led protests against Milosevic two years prior.⁵⁶ Similarly, a large number of Iraqi suburbanites answered the government's call to "feed themselves by turning to agriculture" early on in the Iraqi sanctions episode. This allowed Saddam Hussein to counter a UN effort to distribute food in Iraq as a challenge to his position as sole leader of Iraq.⁵⁷

As time moves on and the effects of sanctions or bombing proliferate, however, the popular mood can change. For example, RAND analyst Stephen Hosmer noted that after a month of bombing in Serbia, "only a few dozen" bothered to attend the "Rock and Bomb" concerts in Belgrade. The population realized "that they were in for a long and difficult period and that things were likely to get worse."⁵⁸ After two months, the combination of sanctions and air attacks left the people demoralized and concerned about their survival. This mood led to protests that began to trouble the regime's political calculations, increasing the coercive effect.⁵⁹

As more time passes and an attempted coercion becomes protracted, the dynamics begin to change as costs to the senders increase, enthusiasm for sanctions wane, and the target's political situation stabilizes. The target can then use these mounting sender costs to its advantage in strategy.⁶⁰ A protracted sanctions episode has many of the same downsides as a Cold War blockade. As Thomas Schelling posits in his 1966 classic, *Arms and Influence*, "blockade, harassment, and 'salami tactics' can be interpreted as way of evading the dangers and difficulties of compellence."⁶¹ Schelling argues that a blockade can start the coercive action "in low gear, without the conviction that goes with greater momentum but also without the greater risk."⁶² According to Schelling, this approach yields the initiative to the target. Using a car wreck analogy, he illustrates his point:

Instead of speeding out of control toward our car that blocks his way, risking our inability to see him and get our engines started in time to clear his path, [the target] approaches slowly and nudges fenders, crushing a few lights and cracking some paint. If we yield he can keep it up, if not he can cut his losses. And if he makes it look accidental, or can blame it on an impetuous chauffeur, he may not even lose countenance in the unsuccessful try.⁶³

Schelling's blockade analogy describes Saddam Hussein's decade long counter-coercion strategy against the UN coalition almost perfectly. Initially, Hussein feigned compliance with UN inspectors and allowed a large quantity of chemical weapons to be destroyed. However, he also continually challenged the coalition and the inspections using increasingly aggressive tactics. Over a number of years, Saddam's probing tactics proved increasingly successful. The *coup de grace* was his 1998 expulsion of the UN weapons inspectors, which led only to limited coalition bombing.⁶⁴ After this tepid US military response, the sanctions regime virtually collapsed.⁶⁵ Paradoxically, the implementation of the UN "oil for food" program—designed to address coalition concerns over the humanitarian impact of sanctions on the Iraqi population—stabilized the Iraqi economy enough to enable Saddam's more aggressive escalation.⁶⁶

Higher Order Effects Are Hard to Measure. The temporal commonality between the military and economic instrument suggests that measuring higher order effects—that is, the level of coercive influence on the target's decision makers—is extremely difficult. Senders tend to underestimate the force required to achieve higher order effects. To recognize the validity of this argument, one need only witness President G.H.W. Bush's belief that the imposition of sanctions against Iraq following the Gulf War would lead to Saddam's overthrow or President Bill Clinton's expectation that Serbia would fold after a few days of bombing.⁶⁷ Moreover, as previously discussed, the "mechanism" through which military and economic power work to influence the target government is a complex interaction between a target nation's internal politics, US domestic polity, and politics within and between third party nations.⁶⁸ The difficulty of measuring these effects is what distinguishes the art of statecraft from the alchemy of statecraft.

Differences Between Coercive Uses Of Economic and Military Power

While the coercive qualities of economic and military power share many of the same attributes, there are also differences; and these differences are essential to understanding

military and economic complementarity. Two significant differences merit discussion: 1) the nature of military and economic power is materially and qualitatively different; and 2) military and economic power impose different costs on senders, targets and other parties. The following is a discussion of both differences.

The Nature of Military and Economic Force. The most important difference between military and economic power lies in the manner and nature in which costs are imposed on the target. Military power imposes costs through violence, destruction, and death. Unlike economic effects, people can see the direct cause and effect of military power. Moreover, these first-order effects are irreversible—once a life is taken or property is destroyed, there is generally no turning back the effect.⁶⁹ In addition, as Thomas Schelling famously wrote, "the power to hurt is among the most impressive attributes of military force."⁷⁰ To Schelling, "the power to hurt" implies more than the ability of military power to destroy and kill. Schelling argues military power also generates by-products that can be used to produce significant coercive effects:

Pain and shock, loss and grief, privation and horror are always in some degree, sometimes in a terrible degree, among the results of warfare; but in traditional military science they are incidental, they are not the object. If violence can be done incidentally, though, it can also be done purposefully.⁷¹

Therefore, in addition to imposing damage and casualties on the target nation, military force also imposes intense physiological and emotional costs that coerce.

Conversely, the effects of economic force are less tangible and tend to build slowly. While it is true that economic power can bring extreme privation and death on the target population, these effects generally require significant amounts of time to develop. Moreover, in this scenario, the target government must accept responsibility for continued resistance.⁷² The slow and relatively gentle onset rate of economic effects makes the economic instrument generally less coercive than military force, often because the target nation retains military options.⁷³

Military Action Generally Imposes Different Costs on Parties. Just as military and economic power differ in the way in which they impose costs on the target, they also differ in the way in which they impose costs on senders and third parties. Sanctions impose costs on senders and third parties through lost trade, finance, tax revenue, and

debt repayment.⁷⁴ For the US, if a high level of bilateral trade with the target nation does not exist, the costs—as well as the level of coercion—may be fairly low. Even if a high level of trade does exist, the large size of the US economy helps to cushion the impact. However, for states neighboring the target, these costs are usually far higher. As discussed earlier, this creates incentives for nations to subvert the sanctions, thereby creating a self-nullifying effect—a dynamic supported by the experience with multilateral sanctions against Rhodesia, Serbia, and Iraq.⁷⁵

The costs of using military force to senders and third parties are harder to estimate. Certainly, for the United States, there are human costs as well as financial costs. As discussed earlier, targets may attempt to impose high US casualties as a counter coercion strategy. For third parties, the cost varies by geography and participation. For neighboring countries, an influx of refugees and losses due to trade disruptions may occur. Meanwhile, other third parties may incur financial or human costs, particularly if they contribute combat forces.

Summary

The military and economic literature share a great deal in common when it comes to the strategy of coercion. Perhaps the most important commonality is their emphasis on addressing four issues in strategy: feasibility, collateral costs, counter-coercion strategies, and outcomes. First, feasibility addresses the level of sender demands and the ability of the sender to affect the target government's decision mechanism. This relationship helps determine the level of force needed to achieve the sender's policy. Second, senders attempt to minimize collateral costs when developing a coercive strategy. The military instrument tends to rely on technology and intelligence to reduce collateral costs. Meanwhile, the economic instrument's collateral problem is more demanding, requiring approaches that address collateral issues within the US domestic polity, within the target nation, and among third parties. Third, the combined economic and military literature identifies at least three counter-coercion strategies: civilian suffering-based strategies, coalition-fracturing strategies, and casualty-generating strategies. These strategies are designed to distract attention from the target's behavior or to unacceptably increase costs

to the sender and third parties in order to defeat a coercion attempt. Finally, the military and economic literature recognizes that successful outcomes in coercion depend a great deal upon the target's action and will to resist. To be successful, senders must be prepared to escalate. Accordingly, any analysis of coercion tools should address their aggregate effect by asking: how does an instrument affect the target *at the margin over the short, medium and long terms?*

As tools of coercion, the military and economic instruments also have a great deal in common. For example, both instruments require a coalition of some degree; however, the underlying reasons for this requirement differ. Similarly, both instruments raise *jus in bello* "just war" concerns that may affect the coalition's cohesiveness. Both instruments require time to achieve decisive effects; however, the nature of effects can change over time, either helping or hindering coercion. Finally, the higher-order effects created by the use of these instruments are difficult to measure. This fact separates the science of coercion from the art of coercion.

The military and economic instruments differ primarily in the way they impose costs on the target, sender, and third parties. Sanctions impose costs on senders and third parties through lost trade, finance, tax revenue, and debt repayment. In general, the onset rate is slow; and the effects are second-order and reversible. On the other hand, military force imposes irreversible costs on the target through violence, destruction, and death. Unlike economic effects, people can see and feel the direct cause and effect of military power. In addition, the use of military force imposes intense physiological and emotional costs that are useful in coercion. How do these differences complement one another in strategy? This question sets the focus for the next chapter.

Notes

¹ Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 10.

² Emphasis in original. Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 10.

³ Chan and Drury, *Sanctions as Statecraft*, 2.

⁴ Barry Watts, "Theory and Evidence in Security Studies," *Security Studies*, Vol. 7, No. 2. Winter 1997/1998, 129-30. Also see Robert A. Pape, *Bombing to Win* (Ithaca, N.Y.: Cornell University Press, 1996), 13-20.

⁵ David Cortright and George A. Lopez in *Smart Sanctions: Targeting Economic Statecraft*, ed. David Cortright and George Lopez (Lanham, Md.: Rowman and Littlefield, 2002), 8-15.

⁶ Pape, *Bombing to Win*, 56.

Notes

- ⁷ Ibid., 56-57.
- ⁸ Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 93-94. .
- ⁹ Jonathan Kirshner, "The Microfoundations of Economic Sanctions," *Security Studies* 6, no. 3 (spring 1997): 42.
- ¹⁰ Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 46.
- ¹¹ Ibid., 92.
- ¹² Chan and Drury in *Economic Sanctions as Statecraft*, 11.
- ¹³ Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 51; Also see Mueller, "Coercion and Airpower," 7.
- ¹⁴ Daniel Byman and Matthew Waxman, "Defeating US Coercion," *Survival* 41, no. 2 (Summer 1999): 108-10.
- ¹⁵ Byman and Waxman, "Defeating US Coercion," 110.
- ¹⁶ Kenneth M. Pollack, *The Threatening Storm: The Case for Invading Iraq* (New York: Random House, 2002) 85-87; Anthonius W. de Vries in *Smart Sanctions*, 101-103.
- ¹⁷ Margaret P. Doxey in *Smart Sanctions*, 187-88.
- ¹⁸ Ibid., 189; Chan and Drury in *Sanctions as Statecraft*, 16.
- ¹⁹ Pollack, *The Threatening Storm*, 100-101.
- ²⁰ Byan and Waxman, "Defeating US Coercion," 110-16.
- ²¹ Ibid., 113-14.
- ²² Cortright and Lopez in *Smart Sanctions*, 1-21; Pollack, *The Threatening Storm*; 74-75. Controlling food distribution is a powerful counter-counter coercion strategy. Saddam Hussein only grudgingly accepted the "oil-for-food" program in 1996. He fought off a similar resolution in 1991, fearing that acceptance of UN oversight would undermine his position as the undisputed leader of Iraq. See Pollack, *The Threatening Storm*, 60-61.
- ²³ Pollack, *The Threatening Storm*, 152.
- ²⁴ Ibid., 67.
- ²⁵ Barry R. Posen, "The War for Kosovo: Serbia's Political Military Strategy," *International Security* 24, no.4 (Spring 2000): 52-53.
- ²⁶ Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 80-82.
- ²⁷ Thomas P. Ehrhard, "Making the Connection: An Air Strategy Analysis Framework " (Master's thesis, School of Advanced Airpower Studies, June 1995), 25-39.
- ²⁸ See Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 21.
- ²⁹ Ibid., 30-34.
- ³⁰ Ibid., 21.
- ³¹ See Robert S. Dundey, "Beat the Devil," *Air Force Magazine* 85, no. 10 (October 2002): 2.
- ³² Byman, Waxman, and Larson maintain that "coalition contributions in the form of bases and access are often far more important than direct contributions given the USAF's qualitative superiority over other air forces in stealth, command and control, and precision strike. Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 88.
- ³³ Ibid., 89.
- ³⁴ Ibid., 95-106.
- ³⁵ Chan and Drury in *Sanctions as Statecraft*, 3-4; Haass, "Economic Sanctions: Too Much of a Bad Thing," 6; Elliot, "The Sanctions Glass," 60. Keohane and Nye's theory

Notes

of complex interdependence, presented in chapter 1, suggests multilateral support is likely to become even more important in the future. Hufbauer, Schott, and Elliot do not necessarily agree with this conclusion, however. In many ways, their arguments parallel military scholars' writings about coalitions—the more nations that join the sanctions, the more divergent the interests become, and the more difficult to keep the sanctions in place. However, they also note that "too many cooks *opposing* sanctions can spoil the sender's broth," implying that a "black knight" can disrupt the effectiveness of multilateral sanctions by providing assistance to the target. See Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 95-97.

³⁶ Haass, *Brookings Institution Policy Brief #34*, 6.

³⁷ Hufbauer, Schott, Elliot, *Economic Sanctions Reconsidered*, 12.

³⁸ Elliot, "The Sanctions Glass: Half Full or Completely Empty?" 60.

³⁹ I Kenneth Katzman, *CRS Report IB92117 Iraq: Compliance, Sanctions, and US Policy* (Washington, D.C.: Congressional Research Service, 27 February 2002), 11.

⁴⁰ Richard Haass, "Economic Sanctions: Too Much of a Bad Thing," *Brookings Institution Policy Brief #34*, June 1998, on-line, Internet, 22 February 2003, available at <http://www.brook.edu/comm/policybriefs/pb34.htm>, 5.

⁴¹ Elliot, "The Sanctions Glass," 60. One highly controversial technique to "force" other nations to maintain sanctions is the employment of "secondary sanctions." Secondary sanctions impose US sanctions against third parties who violate an international sanctions regime (or in some cases, US sanctions regime). Critics charge this strategy unnecessarily draws attention away from the target nation's behavior and harms US long-term trade interests. See Haass, "Economic Sanctions: Too Much of a Bad Thing," 3.

⁴² Katzman, *CRS Report IB92117*, 11-12.

⁴³ Waltzer, *Just and Unjust Wars*, 21.

⁴⁴ Albert C. Pierce, "Just War Principles and Economic Sanctions," *Ethics and International Affairs* 10 (1996): 99.

⁴⁵ See Richard Haass, "Economic Sanctions: Too Much of a Bad Thing," 5-6; Baldwin, *Economic Statecraft*, 359; Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 2; Cortright and Lopez in *Smart Sanctions*, 1-9.

⁴⁶ Pierce, "Just War Principles and Economic Sanctions," 103-10. In *in bello* theory, discrimination "prohibits directly intended attacks on noncombatants and nonmilitary targets." Pierce, 101. Meanwhile, proportionality means "the damage to be inflicted and the costs incurred must be proportionate to the good expected by taking up arms." Pierce, 105.

⁴⁷ Cortright and Lopez in *Smart Sanctions*, 1.

⁴⁸ Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 21.

⁴⁹ Haass, "Economic Sanctions: Too Much of a Bad Thing," 3; Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 105. In general, financial tools work with greater "speed" than trade tools. See Kirshner, "The Microfoundations of Economic Sanctions," 38.

⁵⁰ Pollack, *The Threatening Storm*, 61.

Notes

⁵¹ Stephen T. Hosmer, *The Conflict Over Kosovo: Why Milosevic Decided to Settle When He Did* (Santa Monica, Calif.: Rand, 2001), xiii-xiv.

⁵² Ivo H. Daalder and Michael E. Hanlon, *Winning Ugly: NATO's War to Save Kosovo* (Washington, D.C.: Brookings Institution, 2000), 103-105.

⁵³ Hosmer, *The Conflict Over Kosovo*, xv-xxi. The bombing began on 24 March 1999. In addition, economic sanctions were also gradually increased. A trade embargo was imposed by the UN Security Council on 31 March, Serbian assets were frozen in late April, and Serbia's access to financial capital was tightened in early May. Milosevic capitulated on 3 June 1999. See Daalder and Hanlon, *Winning Ugly*, 28-29 and Hosmer, *The Conflict Over Kosovo*, 68-71.

⁵⁴ See Byman, Waxman, and Larson, *Air Power as a Coercive Instrument*, 20. Also see Chan and Drury in *Economic Sanctions as Statecraft*, 15.

⁵⁵ Chan and Drury in *Sanctions as Economic Statecraft*, 7.

⁵⁶ Hosmer, *The Conflict Over Kosovo*, 51.

⁵⁷ Pollack, *The Threatening Storm*, 60-61.

⁵⁸ Hosmer, *The Conflict Over Kosovo*, 52.

⁵⁹ *Ibid.*, 52-63.

⁶⁰ As Hufbauer put it, "sanctions may create their own antidotes" as time goes forward. Quoted in Chan and Drury in *Economic Sanctions as Statecraft*, 16.

⁶¹ Thomas C. Schelling, *Arms and Influence* (New Haven, Conn.: Yale University Press, 1966), 77.

⁶² Schelling, *Arms and Influence*, 77-78.

⁶³ *Ibid.*, 78.

⁶⁴ The coalition response, dubbed Operation Desert Fox, consisted of 650 sorties and 415 cruise missile attacks spread over four days. See Pollack, *The Threatening Storm*, 92-95.

⁶⁵ *Ibid.*, 100-103.

⁶⁶ *Ibid.*, 78-80.

⁶⁷ *Ibid.*, 48-49; Daalder and Hanlon, *Winning Ugly*, 103-105.

⁶⁸ Ehrhard, "Making the Connection," 25-39.

⁶⁹ Phillip S. Meilinger, "Winged Defense: Airwar, The Law and Morality," *Armed Forces and Society* 20, No. 1 (Fall 1993):115-16.

⁷⁰ Schelling, *Arms and Influence*, 2.

⁷¹ *Ibid.*, 2.

⁷² Meilinger, "Winged Defense," 115. However, as noted earlier, the target government may willingly accept these consequences as a deliberate counter-coercion strategy.

⁷³ This is widely acknowledged in the economic literature. Hufbauer, Schott, and Elliot conclude, "Economic sanctions seem most effective when aimed against erstwhile friends and close trading partners. In contrast, sanctions directed against target countries that have long been adversaries of the sender country, are generally less successful." Similarly, Richard Haass argues economic sanctions are useful at the lower end of the coercive spectrum by arguing, "sanctions can on occasion achieve (or help to achieve) various foreign policy goals ranging from the modest to the fairly significant." See

Notes

Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 99 and Richard Haass, "Economic Sanctions: Too Much of a Bad Thing," 3.

⁷⁴ While this is true in a macroeconomic sense, there are exceptions. For example, import sanctions may be well received to the extent they protect domestic enterprises from offshore competition. See Chan and Drury in *Sanctions as Economic Statecraft*, 5-7.

⁷⁵ Ibid., 16.

CHAPTER 4

ASSESSING ECONOMIC AND MILITARY COMPLEMENTARITY

But economic globalism is not a substitute for world order, though it can be an important component of it. The very success of the globalized economy will generate dislocations and tensions, both within and between societies, which will exert pressures on the world's political leaderships.

Henry Kissinger, Does America Need A Foreign Policy? ¹

As discussed in chapter 2, the economic instrument of power has increased in importance to American foreign policy. Many scholars of complex interdependence and globalization, such as Harvard's Joseph Nye, argue that as a direct result of increased trade and improved global communications, military security no longer dominates bilateral relations.² However, as Henry Kissinger implies in the epigraph, the military instrument remains critical to the maintenance of world order, especially in the post 9.11 environment. Therefore, both economic and military tools will continue to be important to future coercive strategies. However, this observation begs the question: are these instruments *complementary*? That is, can the combined application of military and economic power amplify coercive effects?

Drawing on the last chapter's analysis of coercion using military and economic means, this chapter explores areas of complementarity that enhances the feasibility of a coercive strategy.³ To conduct this analysis, the chapter examines the US strategies used against Serbia and Iraq in the 1990s.

To review the last chapter's discussion, feasibility addresses whether and how a target nation can be coerced. In other words, what *direct effects* can these instruments impose on the *target nation*. Two related issues impact feasibility: 1) there must be a

"mechanism" that economic or military power can favorably affect within the target nation and 2) the amount of force required is directly related to the sender's demands of the target. The feasibility of a strategy is enhanced when the combined use of economic and military instruments increases the net coercive effect on the target nation, when compared to using a single instrument alone.

Exploring the Preconditions Necessary For Complementarity To Enhance Feasibility

If economic and military complementarity is to enhance the feasibility of a coercive strategy, two preconditions are necessary. First, the target nation must have strong external economic ties that can be disrupted using economic sanctions. And second, the US must be willing to employ military force as part of its strategy. Chapter 1's discussion of complex interdependence suggests that the long run importance of military power in trans-national relations is decreasing. However, Henry Kissinger's latest work, *Does America Need A Foreign Policy*, suggests this view may be incorrect, at least in part. Kissinger argues that despite an underlying geopolitical trend toward globalization, at least four international systems operate side-by-side in the foreground: 1) the US, Western Europe, and the western hemisphere; 2) the great powers of Asia; 3) the Middle East; and 4) Africa.⁴ Within these regions, Kissinger maintains the relative importance of military and economic power varies strongly.⁵

By extension, Kissinger's argument suggests the preconditions necessary for economic and military complementarity to enhance feasibility does not exist in every scenario. For example, Kissinger argues in United States, Western Europe, and the Western Hemisphere disputes are not settled by war or threat of war, governments are generally democratic, and economies are market-oriented.⁶ This region conforms best to Keohane and Nye's complex interdependence construct; therefore, the opportunity for military and economic complementary does not exist, since the likely menu of coercive tools does not include military force.

Africa presents a different problem. Kissinger maintains that while 46 African nations consider themselves democracies, they tend not to align based on ideology. A balance of power does not apply due to the size of the region and the short reach of the

nations. Borders drawn in the colonial period remain a problem, leaving ethnic groups, tribes, and religious groups divided and endowing it "with explosive potential, ethnic conflict, serious underdevelopment, and dehumanizing health problems."⁷ In terms of complementarity, however, the lack of strong economic ties with the West tends to make economic tools less effective.⁸ Therefore, few opportunities exist for military and economic complementarity to enhance the feasibility of a coercive strategy, since measures like economic sanctions are unlikely to produce significant direct effects.

On the other hand, Slobodan Milosevic's Serbia offered a near perfect setting for economic and military complementarity to enhance the feasibility of a coercive strategy. For example, strong trade ties to Western Europe enabled the economic sanctions imposed by the European Union to impose significant costs on the Serbian nation.⁹ This fact, combined with strong support for military action by NATO and significant industrial infrastructure that could be targeted to increase costs, created the conditions necessary for economic and military complementarity in Operation Allied Force.

Hence, the opportunity for military and economic complementarity to enhance the feasibility of a coercive strategy does not exist in every scenario. The strategist must consider factors such as regional stability, economic relationships, and the fundamental underpinnings of regional relationships when making this judgment.

Strategies To Achieve Complementarity And Enhance Feasibility

When the opportunity for complementarity does present itself, the US experience of the 1990s reveals there are concrete strategies to coordinate the application of military and economic power in order to enhance coercion. An analysis of the economic and military measures employed against Iraq and Serbia reveals at least five generic strategies that can be employed to achieve economic and military complementarity.

Strategy 1: Using Military and Economic Power To Threaten Regime Control.

This strategy applies to police states or dictatorships suffering from the long-term effects of comprehensive sanctions. This internal weakness created by these sanctions may enhance the effectiveness of military strikes aimed against targets that enable regime control such as intelligence centers, television and radio stations, the police apparatus, or

military forces. The desired second-order effect of this strategy is to disrupt internal security, thus facilitating an overthrow or assassination opportunity for rival groups.

This strategy was utilized against Iraq's Saddam Hussein following the expulsion of UN weapons inspectors in 1998. The result of this strategy was positive. According to former CIA analyst and best-selling author Kenneth Pollack, "Saddam panicked during the strikes. Fearing that his control was threatened, he ordered large-scale arrests and executions, which backfired and destabilized his regime for months afterward."¹⁰ In addition, Pollack argues that the combination of bombing and sanctions seemed to give new life to Hussein's domestic opposition, leading to one coup attempt and resulting in widespread disorder in Iraq's southern region.¹¹ However, the bombing failed to cause Saddam's overthrow, leading Pollack to wonder what might have happened had the bombing continued for more than four days.¹² Nevertheless, this kind of disruption may prove useful even if it does not cause regime change, particularly if the policy end is limited to "containing" a target regime.

Strategy 2: Using Military Strikes to Enhance Sanctions-induced Shortages. This strategy applies to any situation where the import of a strategic commodity (for example, oil) is limited due to targeted or comprehensive sanctions. Military strikes designed to destroy existing stocks and production capabilities complement the sanctions by exacerbating (or creating) the shortage effect. The desired second-order effect of the strategy is to generate public protests or to cut off essential services, thus facilitating political change or internal unrest.

This strategy was employed against Serbia's oil industry during the 1999 NATO bombing. According to RAND's Stephen Hosmer, NATO air strikes destroyed both of Serbia's oil refineries and a large percentage of Serbia's petroleum reserves. In addition, NATO targeted railroad bridges from Montenegro and closed the Danube to navigation in order to limit petroleum, oil, and lubricants (POL) imports.¹³ Although a large percentage of POL stocks were dispersed prior to the bombing and the flow of oil imports was never completely shut off, the oil shortage was so acute by the end of the conflict that Serbian agricultural experts were concerned farmers would be unable to harvest their crops.¹⁴ Although many of the Serbian elite profited from the scarcity of oil, Hosmer

attributes the lack of POL to be one factor that contributed to Serbian President Slobodan Milosevic's decision to capitulate.¹⁵

Strategy 3: Generating Personal Loss To Target Leadership. This strategy applies to situations where the target government's key leaders are vulnerable to the influence of a narrow circle of associates. This strategy uses both economic and military force to seize, freeze, or destroy the assets of these associates. The desired second-order effect of the strategy is to produce a debilitating loss of net worth among the associates, which results in a loss of political support for the target government's leaders.

This strategy was also employed against Serbia during the 1999 NATO bombing and targeted 360 of Milosevic's "cronies."¹⁶ Those who owned industrial plants in Serbia faced having their facilities bombed by NATO aircraft. To heighten the psychological effect, faxes usually preceded these attacks by 24 hours.¹⁷ In addition, the homes of Milosevic and his cronies were attacked.¹⁸ Meanwhile, members of the European Union banned Milosevic's cronies from entering or conducting business in their countries and threatened to seize their assets.¹⁹ While not all of Milosevic's cronies were convinced, the strategy did split Milosevic's closest supporters in a way that some analysts believed was significant.²⁰

Strategy 4: Using Military Strikes To Accentuate Disruption of Trade. This strategy simply adds military punishment to the effect of economic sanctions. It targets critical infrastructure such as transportation, telecommunications, and power networks to shut down industry and deepen the economic impact of trade sanctions. To the extent that both measures add different but mutually supporting coercive effects, it meets the definition of complementarity. The desired second-order effect of this strategy is to impose continually increasing costs on the target in order to produce direct political change.

This was another strategy used against Serbia in the 1999 conflict. NATO imposed costs by destroying 70 percent of the Danube road bridges and 50 percent of the Danube rail bridges.²¹ This significantly disrupted normal business communications, since the Danube cuts the country—and Belgrade—roughly in half. In addition, Serbian electrical production and distribution was targeted, affecting 70 percent of the country's power.²²

As a result of the bombing and sanctions, unemployment dramatically increased, workers went unpaid, and barter replaced currency for goods in short supply.²³

The effects of this strategy also extended beyond economics. The loss of electricity disrupted water and sanitary sewer services.²⁴ In addition, travel between cities in Serbia became more difficult—one poll reported that 72 percent of Serbians were directly inconvenienced by the destruction of bridges and roads.²⁵ According to Hosmer, since 75 percent of Serbian homes were heated with electricity, Milosevic feared the prolonged loss of electricity would threaten his rule, particularly once winter set in.²⁶

While this strategy is easier to measure in terms of direct effects, there are significant collateral concerns. For example, electrical production was interrupted in Iraq in 1991 for a combination of military and coercive purposes. The second-order effects were similar to Serbia's—water and sewer services were interrupted. However, the electrical interruption in Iraq became protracted under UN sanctions and the Hussein regime. As a result, one estimate placed civilian deaths due to the loss of electrical power and potable water in Iraq at 70,000, providing Hussein with a potential counter-coercion lever.²⁷ Therefore, employing this strategy requires that decision makers understand the range of possible political and humanitarian outcomes. Although economic and military measures can complement one another, they can also detract from the overall coercive effect due to the unknowable exigencies of conflict.

Strategy 5: Amplifying A Third-Party Threat. This strategy uses a combination of economic sanctions, economic assistance, and military force to enhance the military capability of a third party in a conflict, while simultaneously degrading the military capabilities of the target. The desired second order effect of this strategy is to use the enhanced military capability of the third party in order to pose a direct threat to the target nation. The target nation's leadership directly changes its policy in order to prevent further enhancement of the third-party threat.

This strategy was used in 1995 to enhance the capabilities of the Bosnian Muslims and Croats against the Bosnian Serbs. Politically, the strategy resulted in peace negotiations culminating with the signing of the Dayton Peace Accords. The components of the strategy consisted of three main parts. First, portions of the UN sanctions imposed against Serbia were lifted in exchange for Serbia's pledge to close its border with Bosnia

and to end its support of the Bosnian Serbs. Second, a military confederation between Croatia and Bosnian Muslims was formed which provided a six-to-one numerical advantage over the Bosnian Serbs' military forces. Finally, NATO bombing, which attacked the offensive capabilities of the Bosnian Serbs such as communications nodes, weapons, and ammunition storage areas and lines of communication, was timed to coincide with the start of an offensive push by the Bosnian/Croat confederation.²⁸ Together, the converging prongs of the strategy left the Bosnian Serbs with little choice other than to negotiate.

Summary: Using Military and Economic Complementarity To Enhance Feasibility

In terms of enhancing the feasibility of a coercive strategy, this chapter demonstrated that the military and economic instruments are complementary, provided the necessary preconditions exist. In addition, it provided the five strategies used in the 1990s to achieve complementarity summarized in Figure 6.

Figure 6. Strategies To Enhance Coercive Feasibility Using Military and Economic Complementarity

| <u>Strategy</u> | Sanctions Type | Military Targets | 2nd Order Effects | Target Mechanism |
|---|---------------------------|-------------------------|-----------------------------------|-------------------------------|
| Threaten Regime Control | Comprehensive | Regime Control | Disrupt Internal Security | Overthrow or Assassination |
| Enhance Shortage Effects of Sanctions | Targeted or Comprehensive | Strategic Commodities | Critical Shortages | Public Protest, Policy Change |
| Generate Personal Loss to Target Leadership | Targeted | Leadership Assets | Loss of Net Worth | Direct Policy Change |
| Accentuate Disruption of Trade | Targeted or Comprehensive | Infrastructure | Constantly Increasing Costs | Direct Policy Change |
| Amplify Third-Party Threats | Targeted | Target Military | Enhance 3rd Party Mil. Capability | Direct Policy Change |

The strategist should not view any one strategy as an end-to-end solution that will achieve a desired policy outcome. Several strategies may have to be applied in order to generate adequate coercive effect. How multiple strategies are applied depends upon the situation. For example, some situations may call for slow escalation, while other situations may call for their application in parallel.

Adjusting these strategies, once in place, presents challenges as well. Most are difficult to measure, since “success” may depend upon a small group—or one person—deciding to acquiesce in the face of a coercive threat. Therefore, judging the effectiveness of the campaign is heavily subjective, often relying on analysis of anecdotal information. Furthermore, all of the strategies require time to work. During this “wait” time, the strategist must be prepared to address potential counter-coercion tactics employed by the target. Finally, the strategist must keep domestic and third party outcomes in mind, for often they might be more strategically important than target outcomes. This requires assessing the impact of sanctions on neighboring states and other coalition members. In the final analysis, integrating economic and military power to enhance a coercive strategy is a deeply human undertaking, which makes it part science, but mostly art. The five strategies presented in this chapter are not a recipe, but instead offer a point of departure to stimulate the strategist to blur the line between these two important instruments of power.

Notes

¹ Henry Kissinger, *Does America Need A Foreign Policy? Toward A Diplomacy for the 21st Century* (New York: Simon & Schuster, 2001), 30-31.

² Keohane and Nye, *Power and Interdependence*, 25-29.

³ The following analysis attempts to focus purely on the complementarity between economic and military power. Yet, it is difficult to disaggregate diplomatic and informational power from the discussion. Moreover, it is difficult to draw the line between military/economic complementarity vice diplomatic/economic complementarity, and so on. For example, did the adjustment in foreign aid payments to front-line states on the war on terrorism (discussed in chapter 2) support the diplomatic or military strategy? These are crucial questions that remain to be explored.

⁴ Kissinger, *Does America Need A Foreign Policy?*, 25-26.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ For further evidence to support this argument, see Figure 5 that compares US investment by region. Next to the Middle East, Africa receives the lowest level of US direct investment—about 16 times less than South America.

⁹ Hosmer, *The Conflict Over Kosovo*, 66-71.

¹⁰ Pollack, *The Threatening Storm*, 93.

¹¹ Ibid.

¹² Ibid.

¹³ Hosmer, *The Conflict Over Kosovo*, 67.

¹⁴ Ibid., 67-70.

¹⁵ Ibid.

Notes

¹⁶ Ibid., 75.

¹⁷ This element of the strategy was informational, but it is included here since it was conducted in support of the military strategy.

¹⁸ Daadler and O'Hanlon, *Winning Ugly*, 200-01.

¹⁹ Hosmer, *The Conflict Over Kosovo*, 75.

²⁰ Ibid., 65.

²¹ Daadler and O'Hanlon, *Winning Ugly*, 200.

²² Homer, *The Conflict Over Kosovo*, 68.

²³ Ibid., 70-71.

²⁴ Ibid., 54.

²⁵ Ibid.

²⁶ Ibid., 104.

²⁷ Thomas E. Griffith, "Strategic Attack of National Electric Systems," Master's thesis, School of Advanced Airpower Studies, October 1994, 42.

²⁸ Michael O. Beale, "Bombs Over Bosnia: The Role of Airpower In Bosnia – Herzegovina," Master's thesis, School of Advanced Airpower Studies, August 1997, 37.

CHAPTER 5

CONCLUSION

The goal of this study was to determine if the military and economic instruments of power are complementary in coercive diplomacy, and, along the way, to provide the reader with an overview of the economic instrument of power and a summary of the military and economic literature on coercion theory. The purpose of this chapter is to briefly review the major findings of the study and offer areas for future study.

A Review of The Study's Major Findings

For the strategist, the study uncovered at least five significant findings.

Subject to Preconditions, The Military and Economic Instruments Are Complementary

A study of coercive strategies employed against Iraq and Serbia in the 1990s showed the economic and military instruments are complementary—that is, they produce synergistic effects that increase the level of relative effect—provided two preconditions are met: 1) the target nation must have strong external economic ties that can be disrupted using economic sanctions and 2) the US must be willing to employ military force as part of its strategy. Understanding the significance of these preconditions requires the strategist to gain an appreciation for trends in global economic relationships and for the mechanics of coercion theory.

A Trend Toward Globalization Makes Effective Unilateral Action Difficult Using Economic Means

The United States derives its economic power through trade by granting access to its markets and financial capital. Since World War II, the United States has promoted a system of liberal trade that emphasized multilateral agreements. This development, in

concert with the rise of rapid global communications, has led to closer economic and cultural ties between nations. These developments has led to a system of complex interdependence—commonly referred to as "globalization"—between (western) nations that emphasizes multilateral action, international institutions, and de-emphasizes military action. For the United States, this development generally limits effective unilateral economic action; therefore, a coalition of some kind is generally needed to enforce economic sanctions.

However, A Regional System of Power Underlies The Trend Toward Globalization

The study found Henry Kissinger's view on globalization important to understanding the relationship between military power and economic power. Kissinger argues that the current international order is composed of four regional systems operating side-by-side. Within these regions, Kissinger maintains the relative importance of military and economic power varies strongly. While a system of complex interdependence dominates trans-Atlantic affairs, other regions operate under different paradigms. For example, Kissinger argues relations in Asia are predicated on an economic and military balance of power; relations in the Middle East are ideologically and religiously based; and relations in Africa are complicated by divided religious and ethnic groups that endow it with explosive potential. For the strategist, this arrangement explains why the potential for military and economic complementarity to enhance a coercive campaign does not exist in every scenario. In some cases, the military option is "off the table," while in other cases, a lack of economic ties makes the effectiveness of economic tools questionable.

An Integrated Economic And Military Strategy Must Address Issues of Feasibility, Collateral Concerns, and Counter-Coercion Strategies

A review of the academic literature on coercion theory revealed a common set of concerns for strategists employing the economic and military instruments of power. These concerns center on addressing issues of feasibility, collateral concerns, counter-coercion strategies, and outcomes in strategy design.

Feasibility addresses whether and how a target nation can be coerced. To address issues of feasibility, the strategist must first identify a "mechanism" that economic or military power can favorably affect within the target nation. The strategist must then estimate whether the effect produced by this mechanism is adequate to produce a policy

change, since amount of force required is directly related to the sender's demands of the target. To produce the requisite force, the strategist may need to target multiple mechanisms in parallel to produce adequate coercive force.

Collateral costs address the unanticipated or unwanted costs that the application of force imposes on the sender nation, target nation, and third parties. Collateral concerns differ between the military and economic instruments. Military collateral concerns center on preventing unintended damage or casualties within the target nation. Meanwhile, economic collateral concerns center on maintaining political support, since the imposition of sanctions may place direct hardships on the weakest members of a target nation's civilian population.

Target nations capitalize on these collateral concerns to formulate counter-coercion strategies. Three types of counter-coercion strategies are common: civilian suffering-based strategies, coalition-fracturing strategies, and casualty-generating strategies. Senders must account for likely target counter-strategies as much as possible in the initial strategy design, whether they use military or economic levers. In addition, the sender must be prepared to escalate in response to target actions.

Each of these issues must be addressed in the initial design of a coercive strategy. This necessity places a premium on anticipating the likely countermoves available to a target government.

There Are Five Strategies That Achieve Economic and Military Complementarity And Enhance the Feasibility of a Coercive Strategy

The centerpiece of the study addressed how an integrated military and economic strategy can enhance the feasibility of a coercive strategy by increasing the net coercive effect on a target government. Using the US experience with Serbia and Iraq in the 1990s, the study identified five potential strategies.

The first strategy uses economic and military power to threaten regime control. This strategy applies to police states or dictatorships suffering from the long-term effects of comprehensive sanctions. This internal weakness created by these sanctions may enhance the effectiveness of military strikes aimed against targets that enable regime control. The desired second-order effect of this strategy is to disrupt internal security, thus facilitating an overthrow or assassination opportunity for rival groups.

The second strategy envisions using military strikes to enhance shortage effects generated by sanctions. This strategy applies to any situation where the import of a strategic commodity (for example, oil) is limited due to targeted or comprehensive sanctions. Military strikes designed to destroy existing stocks and production capabilities complement the sanctions by exacerbating the shortage effect. The desired second-order effect of the strategy is to generate public protests or to cut off essential services, thus facilitating political change or internal unrest.

The third strategy aims to generate personal loss to the target nation's leadership. This strategy applies to situations where the target government's key leaders are vulnerable to the influence of a narrow circle of associates. This strategy uses both economic and military force to seize, freeze, or destroy the assets of these associates. The desired second-order effect of the strategy is to produce a debilitating loss of net worth among the associates, which results in a loss of political support for the target government's leaders.

The fourth strategy uses military strikes to accentuate the punishment effect generated by the disruption of trade. This strategy simply adds military punishment to the effect of economic sanctions. It targets critical infrastructure such as transportation, telecommunications, and power networks to shut down industry and deepen the economic impact of trade sanctions. To the extent that both measures add cumulative coercive effects, it meets the definition of complementarity. The desired second-order effect of this strategy is to impose continually increasing costs on the target in order to produce direct political change.

The final strategy proposed by the study is designed to amply a third party threat to the target government. This strategy uses a combination of economic sanctions, economic assistance, and military force to enhance the military capability of a third party in a conflict, while simultaneously degrading the military capabilities of the target. The desired second order effect of this strategy is to use the enhanced military capability of the third party in order to pose a direct threat to the target nation. The target nation's leadership directly changes its policy in order to prevent further enhancement of the third-party threat.

While combinations of these strategies were employed with varying results throughout the 1990s, they are not universally applicable for two reasons. First, the previously discussed preconditions for military and economic complementarity must be present to consider employing the instruments in concert. Second, the design of each strategy implies a further set of preconditions that must exist for the strategy to be effective (e.g., the existence of a third party threat or a target's lack of a single strategic commodity such as oil). Therefore, the strategist must carefully evaluate the nature of the target government, the disposition of its population, and the dimensions of its economy when designing a coercive strategy to utilizing both economic and military instruments.

Recommendations and Areas for Future Study

Achieving General Deptula's vision for a national security strategy in depth requires the strategist look beyond battlefield effects. The first logical step in expanding this vision is to understand the capabilities and limitations of the economic instrument of power as a coercive tool. Military advanced study groups should lead the way in this effort and expand their curricula to include classes on the capabilities and limitations of the economic instrument of power. In terms of force application, this study dealt primarily with how economic and military complementarity affects the feasibility of a coercive strategy. However, the economic instrument also complements a number of other tools, such as the diplomatic and informational instruments, which also deserve further study. The US attempt to bring Turkey into its alliance against Saddam Hussein before Operation Iraqi Freedom might be one example of the economic tool complementing the diplomatic tool.¹ Scholars should begin new research to better understand how all of the instruments of power complement one another in coercive diplomacy. Hopefully, this increased understanding will lead better coordination and increased synergy between the diplomatic, informational, military and economic instruments.

Final Thoughts

Writing in 1840, Alexis de Tocqueville, the famous French commentator on American democracy wrote, "trade is the natural enemy of all violent passions." While

increasing global trade in the latter half of the 20th century did bring peace and prosperity among western nations, it also provided the US with a powerful coercive tool to supplement its military strength in the right context. As the US faces a new century, it is important for the national security strategist to understand how to coordinate economic and military means to achieve American objectives. Hopefully, this study provides a starting point for conceptualizing this coordination in strategy.

Notes

¹ This case was not included in this study for several reasons. First, the mechanics of regime change differ from the mechanics of coercion. Second, since economic carrots were offered during the diplomatic phase of the negotiation (i.e., before Turkey joined the coalition), the example fell beyond this paper's scope.

Appendix 1

Selected Laws That Potentially Restrict Foreign Commerce, by Type of Activity

| | Commercial Relations ^a | Private Commerce | Government Assisted Commerce ^b | Financing |
|--|--------------------------------------|---------------------|---|-----------|
| Authority for Broad Sanctions Against Any Country | | | | |
| <u>Trading with the Enemy Act (50 USC App 5(b))</u> Authorizes the President to investigate, regulate, or prohibit transactions, or to freeze assets | x | x | x | x |
| <u>United Nations Participation Act of 1945 (22 USC 287c)</u> Restricts economic and communications relations | x | x | x | x |
| <u>International Emergency Economic Powers Act (50 USC 1621, 1622; 50 USC 1701)</u> Authorizes control or prohibition of most financial transactions in national emergencies | x | x | x | x |
| <u>Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (22 USC 5605)</u> Terminates most foreign assistance, arms sales, exports; may restrict IFI support, US bank support, imports, diplomatic relations, and aviation access to the US | x | x | x | x |
| <u>Nuclear Proliferation Prevention Act of 1994 (22 USC 3201)</u> Prohibits contracts with individuals, opposes IFI support; prohibits financial institutions from financing certain transactions | | | | x |
| Authority for Broad Sanctions Targeted at Specific Countries | | | | |
| <u>Iraq Sanctions Act of 1990 (PL 101-513)</u> Imposes trade embargo: prohibits arms sales, arms export licensing, and transfer of controlled nuclear or national security items. Requires US vote against IFI funding; prohibits most US foreign assistance | | x | | x |
| <u>Iran-Iraq Arms Nonproliferation Act of 1992 (50 USC 1701)</u> Sanctions foreign counties for contributing to | | x | x | |

Iraq's or Iran's efforts to acquire nuclear, chemical, biological, or destabilizing numbers and types of advanced conventional weapons

| | | | | |
|---|---|---|---|---|
| <u>Cuban Liberty and Democratic Solidarity Act of 1996 (and Cuban Democracy Act of 1992)</u> (22 USC 6002, 6003) | X | X | X | X |
|---|---|---|---|---|

Authorizes the prohibition of foreign of foreign assistance, arms export assistance, and debt forgiveness to any nation conducting trade with Cuba; restricts port access to ships that have docked in Cuba; reduces US contribution to any IFI that supports Cuba

Appendix 1, continued.

| | | | | |
|--|---|----------------------------|--|------------------|
| | Commercial <u>Relations</u> ^a | Private <u>Commerce</u> | Government Assisted <u>Commerce</u> ^b | <u>Financing</u> |
|--|---|----------------------------|--|------------------|

Authority for Export Controls

| | | | | |
|--|--|---|--|---|
| <u>Atomic Energy Act of 1954 (and Nuclear Nonproliferation Act of 1978)</u> (42 USC 2158) Prohibits transfer of nuclear materials, equipment and related technologies | | X | | X |
|--|--|---|--|---|

| | | | | |
|--|---|---|---|--|
| <u>Arms Export Control Act of 1968</u> (22 USC 2778, 2791) Authorizes the President to limit arms sales or cancel arms sales or contracts on national security grounds | X | X | X | |
|--|---|---|---|--|

| | | | | |
|--|---|---|--|--|
| <u>Trade Expansion Act of 1962</u> (19 USC 1864) Authorizes the President to sanction importation for foreign violations of national security export controls | X | X | | |
|--|---|---|--|--|

Authority to Alter Import Quotas or Tariffs

| | | | | |
|---|--|---|--|--|
| <u>Smoot Hawley Tariff Act of 1930</u> (19 USC 1307) Prohibits importation of goods made with prison labor | | X | | |
|---|--|---|--|--|

| | | | | |
|---|--|---|--|--|
| <u>Trade Expansion Act of 1962</u> (19 USC 1862) Authorizes the President to set duties or import restrictions based on national security issues | | X | | |
|---|--|---|--|--|

| | | | | |
|--|---|---|--|--|
| <u>Trade Act of 1974</u> (22 USC 2135) Authorizes the President to withdraw from trade agreements | X | X | | |
|--|---|---|--|--|

Restrictions on Foreign Aid, Trade Assistance, or International Financial Institutions

| | | | | |
|--|--|--|---|--|
| <u>Export-Import Bank Act of 1945</u> (12 USC 635) Denies Bank support where President determines US national interest related to terrorism, nuclear proliferation, environmental protection or human | | | X | |
|--|--|--|---|--|

| | | | | | |
|--|---|---|---|--|---|
| <u>International Financial Institution Act (22 USC 262)</u> | | | | | X |
| Opposes IFI loans to terrorist states | | | | | |
| <u>Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1998 (PL 105-118)</u> | X | X | X | | X |
| Allows sanctions, withdrawal of IFI support for any Nation harboring war criminals from Rwanda or Yugoslavia | | | | | |

^a Agreements covering air and sea transport, personal travel, and communications with another county
^b Such as foreign aid, trade promotion, and Export-Import Bank loan guarantees and similar US agencies

Appendix 2

US Policy Tools to Control Exports

| Agency | Policy Tool | Purpose |
|--|--|---|
| Department of Commerce Bureau of Industry and Security (formerly known as the Bureau of Export Administration) | Commerce Control List | Determines licensing requirements for commodities, technology and software |
| | Denied Persons List | Prohibited persons and firms from receiving US exports |
| | Entities List | Prohibits exports to end users identified as conducting proliferation activities without a Commerce license |
| | Unverified List | Equivalent of a "watch list" for inclusion on the Entities List |
| | Multilateral Regimes - Nuclear Suppliers Group - Missile Technology and Control Regime - Australia Group (chemical and biological non-proliferation) - Wassenaar Arrangement (conventional arms and dual use goods and technologies) | Issues export restrictions in accordance with multilateral export control regimes |
| Department of Defense Defense Threat Reduction Agency | Coordinates on Commerce Control List and US Munitions List | Develops and implements policies on international transfers of defense related technology and reviews dual-use licenses |
| Department of Energy Office of Arms Controls and Nonproliferation, Export Control Division Office of Fuels Programs | Export Licensing | Licenses nuclear technology and technical data for nuclear power and special nuclear materials |
| | | Licenses natural gas and electric power |
| Department of the Interior Division of Management Authority | Federal Regulation and Enforcement | Controls the export of endangered fish and wildlife species |
| Department of the Treasury Office of Foreign Asset Control | Sanctions List | Restricts all trade to nations specified under US sanctions law |
| | Specially Designated Nationals and Block Persons List | Restricts all trade to individuals specified under US sanctions law |
| Department of State Directorate of Defense Trade Controls | US Munitions List | Defines defense materials and services subject to licensing under the International Traffic in Arms Regulations |
| | Debarred Parties List | Lists individuals denied export privileges under the International Traffic in Arms Regulation |

| | | |
|--|------------------------------------|---|
| Drug Enforcement Agency International Drug Unit International Chemical Control Unit | Federal Regulation and Enforcement | Oversees export of controlled substances; Controls the import and export of chemicals used in the production of controlled substances |
| Food and Drug Administration Office of Compliance | Export Licensing | Licenses export of medical devices and drugs |
| Nuclear Regulatory Commission Office of International Programs | Export Licensing | Licenses nuclear material and equipment |
| US Patent and Trademark Office | Licensing and Review | Oversees patent filing data sent abroad |

Source: Department of Commerce, "US Government Departments and Agencies with Export Control Responsibilities," n.p., online, Internet, 17 March 2002, available at: <https://www.bis.doc.gov/reslinks.htm>.

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